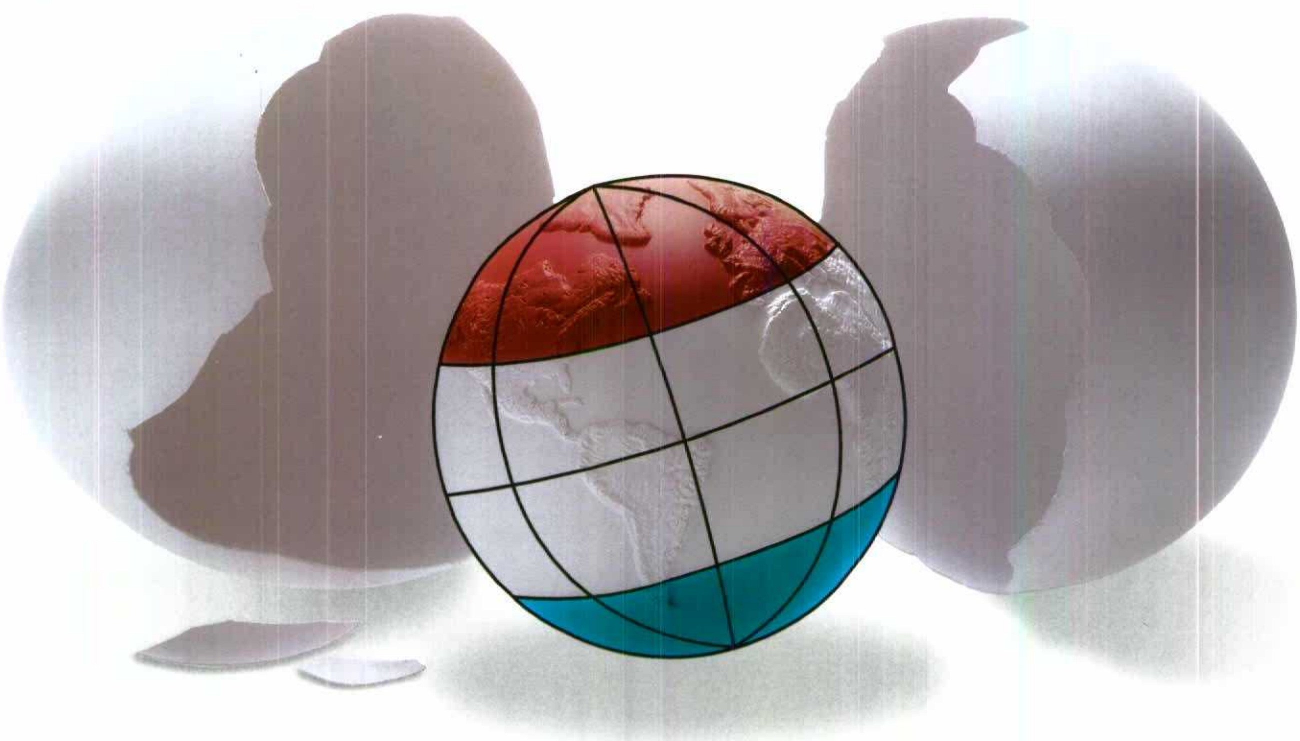
Thirty years ago PepsiCo was created as a company dedicated to aggressive growth.

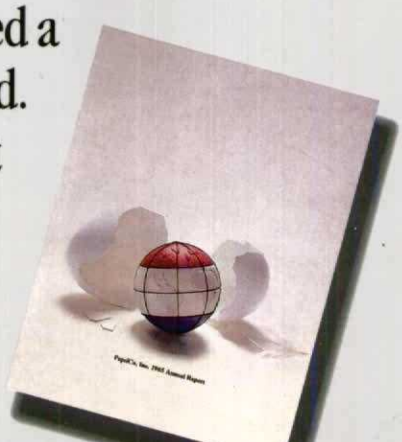
Since then we've grown a remarkable 15% a year, doubling our business every five years.

Some may think we've come a long way. We think we've just begun.



Determined to grow

When PepsiCo was born in 1965, our annual report reflected a world of growth ahead. Since then, sales, ongoing profit and shareholder returns have grown on average 15% a year. Today PepsiCo stands for the same thing it did back then: aggressive growth – year in and year out.



Contents

Financial Highlights

PepsiCo, Inc. and Subsidiaries ($ in millions except per share amounts)	**December 30, 1995 (a)**	December 31, 1994 (a)	**Percent Change**
Statistics			
Year-end market price per share of PepsiCo capital stock	**$ 55 7/8**	36 1/4	**+ 54**
Annual return to shareholders (b)	**% 56**	(12)	
Cash dividends declared per share	**$ 0.78**	0.70	**+ 11**
Summary of Operations			
Net sales	**$ 30,421**	28,472	**+ 7**
Ongoing (c) (d)			
Operating profit	**$ 3,507**	3,201	**+ 10**
Income before cumulative effect of accounting changes	**$ 1,990**	1,767	**+ 13**
Per Share	**$ 2.48**	2.20	**+ 13**
Reported (d) (e)			
Operating profit	**$ 2,987**	3,201	**- 7(g)**
Income before cumulative effect of accounting changes	**$ 1,606**	1,784	**- 10(g)**
Per Share	**$ 2.00**	2.22	**- 10(g)**
Cumulative effect of accounting changes (f)	**$ –**	(32)	
Per Share	**$ –**	(0.04)	
Net income	**$ 1,606**	1,752	**- 8(g)**
Per Share	**$ 2.00**	2.18	**- 8(g)**
Cash Flows			
Provided by operating activities	**$ 3,742**	3,716	**+ 1**
Capital spending	**$ 2,104**	2,253	**- 7**
Purchases of treasury stock	**$ 541**	549	**- 1**
Dividends paid	**$ 599**	540	**+ 11**
Acquisitions and investments in unconsolidated affiliates	**$ 466**	316	**+ 47**

(a) Fiscal years 1995 and 1994 consisted of 52 and 53 weeks, respectively. The fifty-third week increased 1994 earnings by an estimated $54 ($35 after-tax or $0.04 per share).

(b) Represented stock appreciation plus cash dividends declared divided by the prior year-end market price per share of PepsiCo capital stock.

(c) Excluded the initial, noncash charge of $520 ($384 after-tax or $0.48 per share) in 1995 upon adoption of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," at the beginning of the fourth quarter (see Note 2) and a $17 after-tax, noncash gain ($0.02 per share) in 1994 arising from a public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America (see Note 16).

(d) Included a net gain in 1995 of $51 ($27 after-tax or $0.03 per share) from sales of restaurants to franchisees in excess of the cost of closing other restaurants.

(e) Included the initial, noncash charge upon adoption of SFAS 121 in 1995 and the 1994 BAESA noncash gain. See (c) above.

(f) Represented the cumulative effect of adopting a preferred method of accounting for pension assets (see Note 13) and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," (see Note 14).

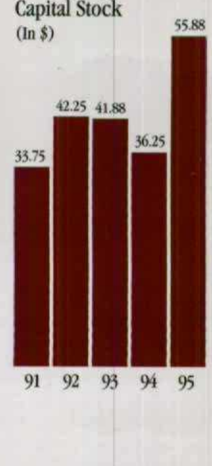
(g) These comparisons are not meaningful because of the adoption of SFAS 121 in 1995 (see (e) above) and two accounting changes in 1994 (see (f) above), as well as the 1994 BAESA gain (see (e) above).

A Word About The Year's Numbers...

Like a lot of companies, PepsiCo adopted a required new accounting rule in 1995, which caused our "reported" earnings to decline. It didn't involve cash and it didn't keep us from selling record amounts of Pepsi, pizza, tacos, chicken and chips. To understand what actually happened in the business, focus on "ongoing" earnings, which exclude the impact of accounting changes and onetime items.

Net Sales
($ in Millions)

Year-End Market Price of PepsiCo Capital Stock
(In $)



Dear Friends:

It was quite a year. Our stock price soared 54%. Our business prospered. And, most of all, our people flourished, growing personally and professionally, more in touch with the consumer than ever.

It was PepsiCo's thirtieth year as a corporation and my tenth as your chief executive officer. It was also my last full year on the job. I've decided to step down as chief executive officer and turn PepsiCo over to a new generation of terrific leaders.

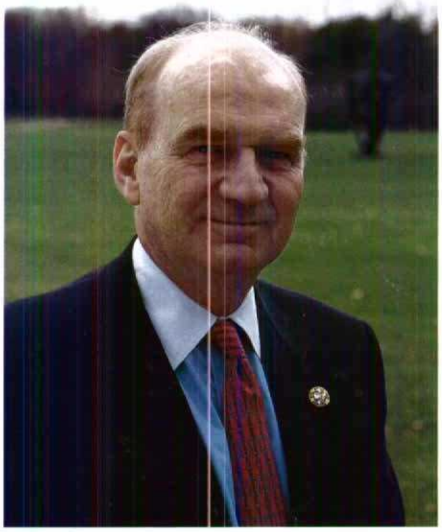
All of which made me a little philosophical. What have we learned about PepsiCo over the last 30 years, I wondered. What qualities drove our success? What characteristics enabled us to grow, nearly doubling our size every five years?

In other words, what does PepsiCo's relatively brief but extraordinary history tell us about tomorrow?

In thinking about the *heart* of PepsiCo, what struck me most was how *little* has changed. Our values and aspirations today are exactly the same as they were 30 years ago.

In 1965 we were determined to be a great corporation, to grow rapidly through product innovation and a sharp focus on the consumer. We recognized right from the start that the key to success was high performance people working with great freedom and autonomy.

That hasn't changed a bit. If anything, today we value people *more* highly and have an even greater determination to grow.



Wayne Calloway, Chairman of the Board and Chief Executive Officer

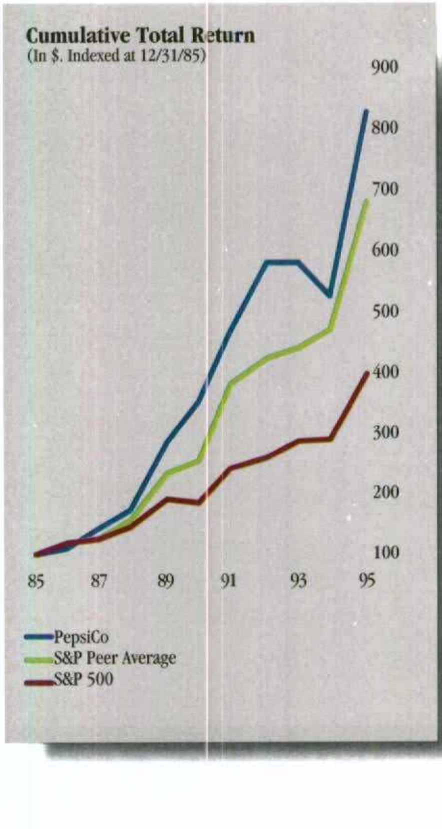
Reason for Growth

Not long ago I was reminded of just *how* determined we've been when it comes to growth. *Fortune* took a look at the remaining companies of its original list of America's 500 largest industrial corporations, published back in 1954. It found that the sales of one company grew faster than all the rest. PepsiCo.

Fortune reported that our sales grew on average 16% a year for 40 years (back to the days of Pepsi-Cola Company). More impressive, and certainly more important to you, our return to shareholders grew just about as fast – averaging about 16% a year, for 40 years.

With that kind of performance over that period of time, naturally we've become pretty big. We have lots more products and far greater financial strength. But bigness is not the reason we seek growth. In fact, sometimes bigness can get in your way. The reason for growth is something else, something almost spiritual: it produces a winning atmosphere.

Growth is pure oxygen. It creates a vital, enthusiastic corporation where people see genuine personal opportunity. They take bigger chances. They work harder and smarter. In that way growth is more than our single most important financial driver, it's an essential part of our corporate culture. It's why so many talented leaders want to work for PepsiCo rather than lots of other fine corporations.



PepsiCo at 30

So, as I see it, those fundamentals haven't changed at PepsiCo over the last 30 years. But some things certainly have. For one, today we sell more in a week than we did in an entire year back in 1965. In the United States alone, for example, we sell 10 pounds of Lay's potato chips every *second*. That's 600 pounds of Lay's every minute of every day. And, that's only one brand, in one country, in one business. To me, that's powerful stuff.

But not nearly as powerful as the stake our people have in our growth. With 480,000 people, PepsiCo is now the world's third largest corporate employer. Today we employ more people in Australia than we employed worldwide when PepsiCo was formed. And we give almost every full-time employee stock options. That not only lets our people share in our success, it aligns their interests squarely with those of our shareholders. When you get that many people focused on growth, you can make almost anything happen.

So that's how I see PepsiCo at 30 years old: a tradition of outstanding growth, great people and financial success.

What about the future? More glorious than our past in my opinion. Our performance in 1995 gives a pretty good hint of the good things to come.

A Look at 1995

It really was a great year for PepsiCo, especially when you consider some of the things we overcame.

For starters we had an anomaly in our fiscal calendar that gave us one less week in 1995 than we had the year before. That makes the "reported" growth smaller.

Then the value of the Mexican peso dropped by about 50%, which is extremely tough for us because Mexico happened to be our biggest international market.

And, finally, in an increasingly competitive industry our restaurant business had been pretty sluggish. After many years of averaging vigorous, double-digit profit growth, our restaurant business had slowed significantly in 1994.

Could we overcome all that? *Absolutely!*

By the end of 1995, our ongoing earnings per share outside of Mexico grew 20% (13% when you include Mexico). Worldwide sales reached more than $30 billion. And our restaurants' cash growth was astonishing, up nearly $600 million.

In our powerful beverage and snack businesses we made terrific progress. In U.S. beverages, despite the highest increase in retail prices in the soft drink industry since the late '80s, we posted solid gains in volume and market share. Outside the U.S., excluding Mexico, ongoing beverage profits grew by more than 40%, led by improved results in our key growth markets.

In our huge U.S. snack business we racked up pound growth of 11%, our second consecutive year of double-digit volume growth. That's an amazing feat for the biggest player in the world's most developed snack chip market. We also invested aggressively in strategic initiatives that will pay off in the future.

And, thanks in part to a terrific performance by our businesses in the United Kingdom and Brazil, our international snack profit outside Mexico grew nearly 60%. That's impressive by any measure.

In restaurants the big story was our financial strategy. It leverages our collective restaurant strength and produces system growth primarily through franchisees. We also got a big boost from some great new products, like Stuffed Crust Pizza and Colonel's Crispy Strips. The result: a 19% gain in ongoing profits. In fact, in the United States both KFC and Pizza Hut posted great volume gains, and Taco Bell worked to improve its business with an array of fine new products.

Accelerating Cash Growth

Looking at PepsiCo as a whole, I'd say that of all the things we did last year, nothing says more about the strength and vitality of this corporation than our cash flow. We generated $1.6 billion in cash from operations after capital spending, up 12% from 1994.

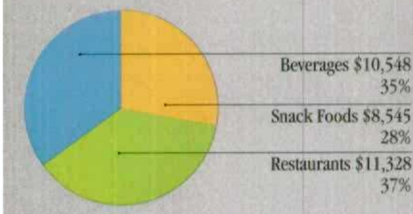
And between 1995 and the year 2000 we expect to have as much as $16 billion in cash left after capital spending. That would dramatically accelerate our cash growth compared to the rate of the last five years.

When you combine powerful cash generating capability with a tradition of market innovation and relentless consumer focus, you have a very big future. Big enough, in my opinion, for our earnings to grow at a compounded rate of about 15% a year over the foreseeable future.

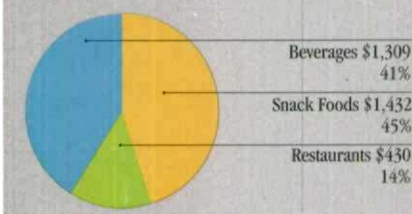
That puts PepsiCo right up there among the best corporations on earth.

When you consider our amazing record of growth over three decades, you see why I'm so proud of this great company.

Net Sales
Total: $30,421
($ in Millions)

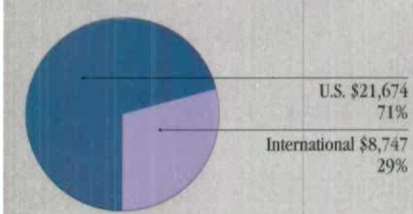


Segment Operating Profit
Total: $3,171*
($ in Millions)

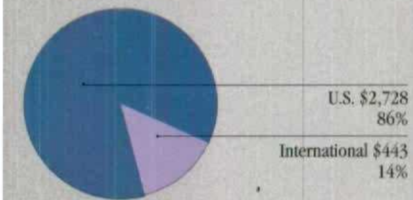


*Included initial, noncash charge of $503 (Beverages - $62, Snack Foods - $4, Restaurants -$437) upon adoption of SFAS 121. See Notes 2 and 19.

Net Sales
Total: $30,421
($ in Millions)



Segment Operating Profit
Total: $3,171*
($ in Millions)



*Included initial, noncash charge of $503 (U.S. -$302, International -$201) upon adoption of SFAS 121. See Notes 2 and 19.

Directors

Our long-term success is the result of many things, not the least of which is an excellent board of directors. Let me say just a few words about three wonderful directors who retire this year and a new outside director who joins us:

- Roger Smith is retiring after seven years on our Board. In that short time he's made a terrific contribution and will be missed.
- Robert Stewart, the last of PepsiCo's original Board of Directors, is also retiring. For more than 30 years he has been a source of excellent judgment and wonderful good cheer. We'll certainly miss Bobby.
- Andrall Pearson too is retiring. He's not only been a director for 26 years, he was PepsiCo's president and chief operating officer from 1971 through 1984. Next to our co-founders Don Kendall and Herman Lay, Andy probably had most to do with making PepsiCo the company it is today. Thank you, Andy, for a great contribution.
- Ray Hunt, chairman and chief executive officer of Hunt Oil, joins us as a new director in 1996. Ray is an outstanding executive who brings unique experience and a special viewpoint to our Board.

I've always viewed our Board as one of PepsiCo's greatest assets. And I think today it's as strong as ever.

PepsiCo's Future

A word about the future. In my opinion, PepsiCo has the best young management team in the world of business. They are experienced and aggressive with a powerful record of accomplishment. The Board and I strongly believe it's time to let them lead this corporation.

Roger Enrico, a 24-year PepsiCo veteran, will be the new chief executive officer, and that's great news for shareholders. He's a big star. Equally terrific are three senior executives who have been elected to the Board: Steve Reinemund, Chris Sinclair and Craig Weatherup. Together they'll make a great team.

But, obviously, PepsiCo's management doesn't stop with those four executives. Our restaurant divisions are headed by five of the best leaders you'll ever meet. And under all of our top executives are dozens more bright, talented executives ready to move forward.

If my 10 years as chief executive officer could be remembered for one thing, I hope it's the management team I've watched grow and mature during this time. They are the best.

Let me wrap up by saying PepsiCo has great products and huge financial resources. But mostly we have wonderful people, hundreds of thousands of them, who I just can't thank enough. It's hard to generalize about that many folks, but I see them as very special. They do their best to help millions of customers and consumers each day. And while none of us is perfect, we're all working to get better and better.

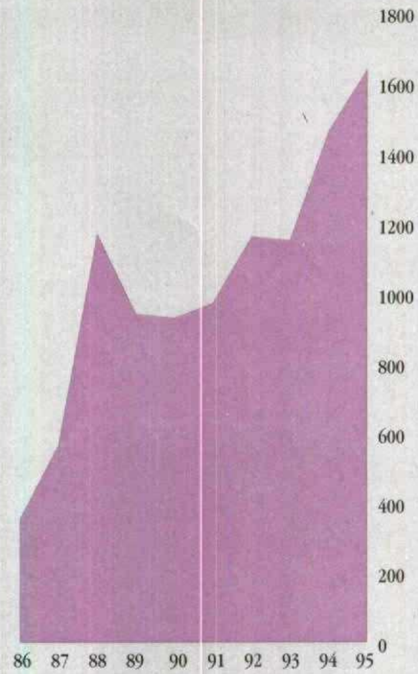
When you think about it, getting better each day is all we can ask and all we should want. It's the best way I know to guarantee a great future.

Sincerely,

Wayne Calloway

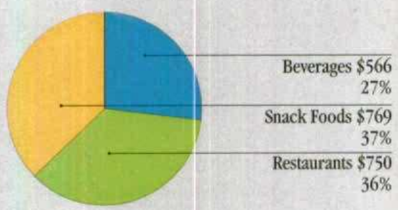
Wayne Calloway
Chairman of the Board and Chief Executive Officer

Operating Free Cash Flow*
($ In Millions)

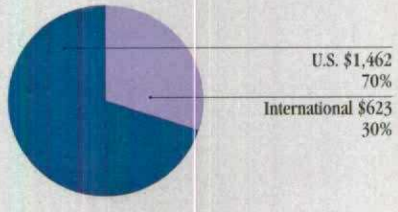


* Cash from operations after capital spending.

Segment Capital Spending
Total: $2,085
($ in Millions)



Segment Capital Spending
Total: $2,085
($ in Millions)



Business Perspective

Introduced 1898.
Estimated 1995
Retail Sales: $18.4 Billion.

Introduced 1957.
Estimated 1995
Retail Sales: $1.6 Billion.
(Sold outside the U.S.)

Introduced 1964.
Estimated 1995
Retail Sales: $4.1 Billion.

Restless? Yes.
Dissatisfied? True.
Always tinkering? We admit it.

For 30 years we've been a fidgety kind of place, but it's caused us to drive change and seek continuous improvement. Today consumers spend more than $65 billion on our products.

We lead – or run a very strong second – in all our business segments, which means that vigorous growth depends on our own imagination, drive and skill. We're constantly introducing new products, expanding and improving distribution and working relentlessly to be more efficient. Most of all, we stay absolutely, completely, unequivocally, 100% riveted on the customer, who's #1 in our book!

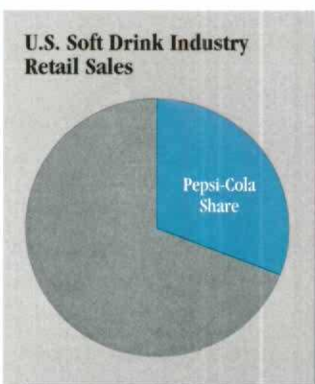
Beverages

The beverage business is one of the best businesses in the world. Soft drinks, juices, teas and other beverages appeal to all people, in all places, of all incomes. And, better still, the business loves innovation. Put out a great new product, with a super package, and the market responds.

No wonder, then, our global beverage business has a very healthy glow. In 1995 consumers bought $32 billion worth of our beverages – or about a billion dollars *more* than the year before. But innovation tells the real story. Last year we had five beverage brands with retail sales of more than $1 billion each.

United States

The United States has the largest soft drink industry in the world, with retail sales of $52 billion in 1995. Pepsi-Cola brands claimed nearly a third.



Of course, with the average person drinking more than 51 gallons of soft drinks a year, it's hard to imagine how we could sell more. Yet we do, thanks to new packages and other innovations and some terrific marketing. In 1995 our volume grew by a very solid 4% – on top of a 6% gain the previous year.

Driving Volume

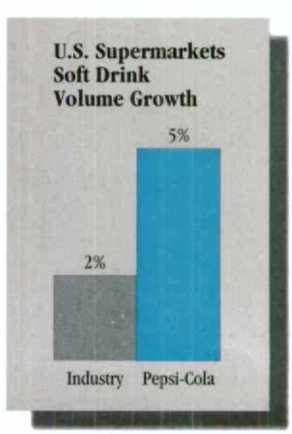
It comes back to innovation. One of our biggest sources of volume growth was new large sized packaging. Consumers loved the convenience of The Cube, our easy-to-store 24-can pack. We were the first beverage company to offer this unique package and then the only company that met the huge demand for it. As a result, in supermarkets our 24-pack volume grew 7%, nearly double the industry growth of 4%, and accounted for nearly a quarter of our volume compared with 14% for the industry.

Convenience/Gas Channel Market Share By Company

Pepsi-Cola Company	33%
Coca-Cola Company	26
Cadbury Schweppes	13
The Quaker Oats Company	6
Other	22
Total	100%

We also innovated with new smaller packages, particularly the very popular 1 liter and 20-ounce bottles.

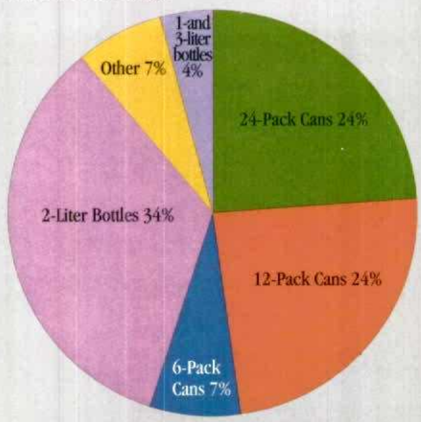
That's why in major distribution channels where consumers have a choice – supermarkets, warehouses, convenience stores and gas stations – we not only gained share in 1995, but gained share faster than our primary competitor. Our private label competitors, who don't provide packaging choices, saw their share drop.



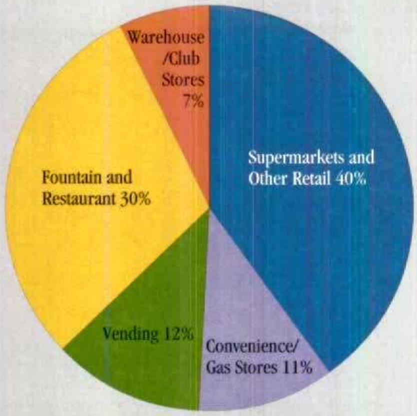
The effect on our volume was dramatic. Pepsi-Cola brands grew more than twice as fast as the industry in supermarkets, the largest distribution channel.

In the highly profitable convenience/gas store channel, which is largely driven by impulse purchases, we grew faster than the industry and outsold our competitors. In this channel, sales volume of our 1 liter, single-serve bottle, Big Slam, grew nearly 50% – putting it well on its way to becoming a billion dollar seller. Big Slam, along with Quick Slam, its 20-ounce little brother, helped make Pepsi-Cola the market share leader in this channel.

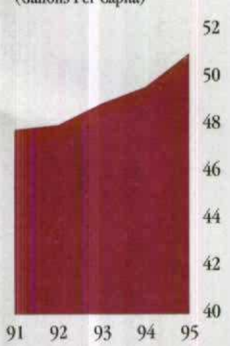
U.S. Pepsi-Cola Soft Drink Sales to Supermarkets by Package
% of Total From Package



U.S. Soft Drink Industry Volume
% of Total By Distribution Channel



U.S. Soft Drink Consumption
(Gallons Per Capita)

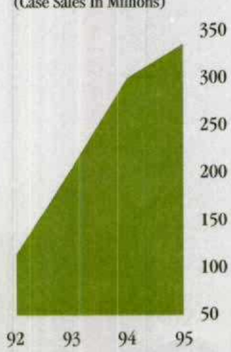


Alternative Beverage Leadership

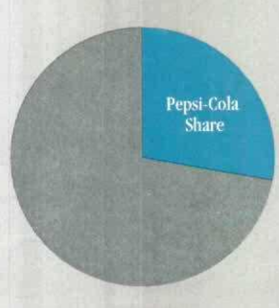
Consumers want choices, more than ever! This welcomed fact largely explains the phenomenal growth over the last decade of "alternative beverages" – ready-to-drink iced teas, bottled water, sports drinks and juices. It started with brands like Clearly Canadian and Snapple. We entered the category in 1992 with a ready-to-drink tea produced in partnership with the Thomas J. Lipton company. Today Lipton is the biggest selling ready-to-drink tea brand, with volume growing more than twice as fast as the industry.

In fact, over the last three years, our share of the alternative beverage category jumped from about 1% to about 13%, an enormous gain, considering that the category itself grew 70% and now has $9.5 billion in retail sales. We now hold a 28% share of the combined soft drink and alternative beverage market, and with more innovation down the road, growth should be steady and rewarding.

Industry Volume of Ready-To-Drink Teas
(Case Sales In Millions)



Pepsi-Cola Share of its Beverage Categories' Retail Sales



International

Our international beverage business has a goal: To be the world's finest and fastest growing beverage business. And it's well on the way. Pepsi-Cola brands are in nearly 200 countries and territories outside the United States and now account for a fifth of the international soft drink market.

Call it the global formula for beverage success: make it new... make it great... make it easy – on the consumer, anyway. Imaginative products, clever packages and expanding distribution have enabled us to grow volume at a compounded annual rate of 8% over the last five years, about 75% faster than the industry.

Pepsi Max Scores Big

Case in point: Pepsi Max – introduced in 1993 and now causing lots of excitement in the international beverage market. Pepsi Max, a low-calorie cola with maximum cola taste, has the potential to become the third largest cola outside the United States.

In 1995 Pepsi Max volume grew a stunning 48%. Except for Mexico, Pepsi Max delivered one-third of

Acquired 1964.
Estimated 1995
Retail Sales: $3.8 Billion.

Introduced 1984.
Estimated 1995
Retail Sales:
$650 Million.

Acquired 1986.
Estimated 1995
Retail Sales: $2.1 Billion.
(PepsiCo owns Brand 7UP outside the U.S.)

Acquired 1986.
Estimated 1995
Retail Sales:
$160 Million.

Introduced 1991.

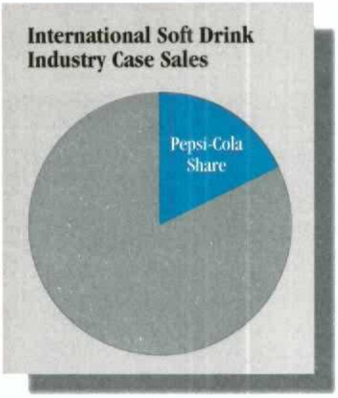
Introduced 1992.

Introduced 1993.
Estimated 1995
Retail Sales: $450 Million.
(Sold outside the U.S.)

Introduced 1994.

Introduced 1995.

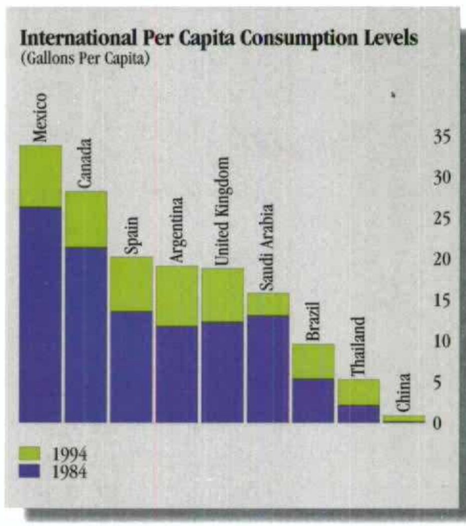
Introduced 1995.



our volume gains in the 51 countries where we sell it.

And there's plenty more innovation where that came from. A line of fruit-based drinks, created under our new The Radical Fruit Company of New York label, succeeded handily in our test market in Spain. Line extensions such as 7UP Ice Cola, now being added in parts of Europe and Latin America, also show great promise.

We're also offering international consumers greater convenience with lightweight cans and plastic bottles. In 1995 we introduced a variety of plastic bottles into 12 markets, including a 1 liter Big Slam into Spain, Japan and Australia.



Investing for Growth

By investing aggressively, we're creating the scale we need to operate efficiently, expand distribution and grow rapidly. Since 1990 we've refranchised, consolidated or otherwise restructured almost 60% of our business. In Latin America, for example, our partnership with BAESA, formed in 1993, is rapidly expanding our business. BAESA opened three new plants and added more than 1,000 delivery trucks in Brazil, where our volume in 1995 nearly doubled. In Mexico, through a joint venture with GEMEX, our largest Mexican bottler, we consolidated several bottling operations and began expanding into southern Mexico.

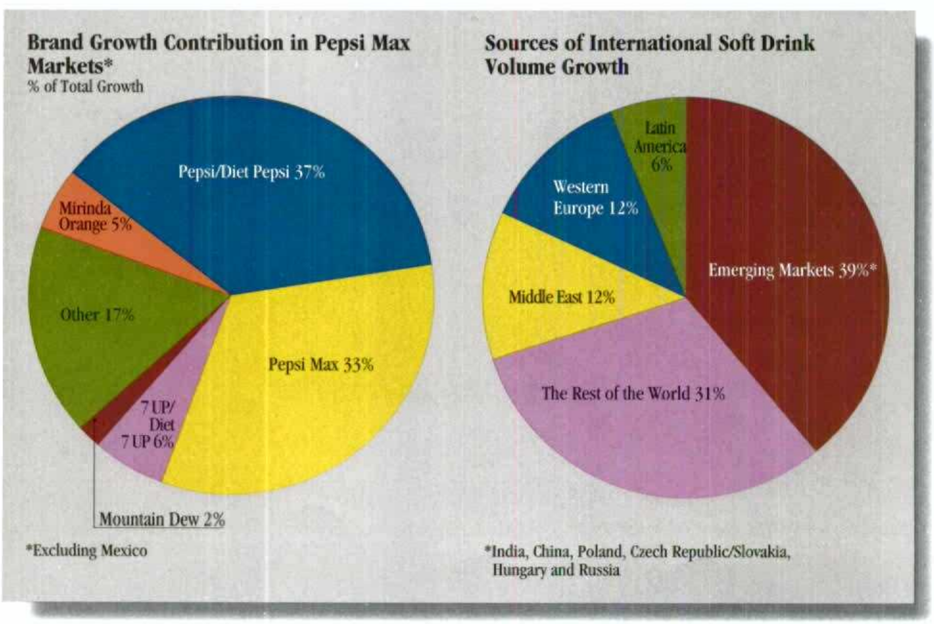
Emerging Markets

Emerging markets may well be our greatest opportunity of all. In the last three years, we've invested more than $500 million to develop markets such as Eastern Europe, China, India and Russia, which include more than a third of the world's population and offer tremendous long-term growth potential.

You can already see the impact. In Hungary and Poland we regained cola market share leadership. In India our total market share jumped to almost 40%. Altogether, more than one-third of our 1995 international volume growth came from emerging markets. We're rapidly building production capacity and expanding distribution to ensure that we have a strong position in these markets which offer vast opportunity. We believe these markets will define the future of the international soft drink industry.

It's there to be done. In a big way. The more we innovate and expand distribution, the more soft drinks we sell.

Over the past decade, per capita consumption has increased in most of the world's markets. We believe there's every reason for this trend to continue – and the opportunity to grow.

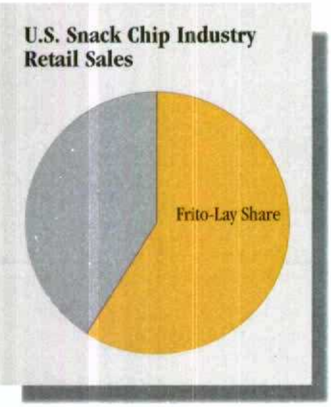


Snack Foods

Our global snack business – the largest snack chip business on earth – made powerful gains. To give you an idea: consumers spent $13.2 billion on our snacks – $1.8 billion *more* in 1995 than they did the year before.

United States

Frito-Lay's ultimate mission is to be America's leading seller of fun food. Volume has grown at a compounded rate of 9% over the last five years. As a result, we've gained almost 10 points of market share in retail sales. Frito-Lay now accounts for more than half of the $12.1 billion snack chip industry, sells eight of the 10 top supermarket snack chip brands and has the leading share in all major snack chip categories. In 1995 Frito-Lay sales in supermarkets grew nearly *10 times* faster than the industry.



Creating Snack News

Our success rests on two elements: powerful distribution and lots of great products.

Each week our 15,000-person sales and distribution system – far and away the largest in the business – reaches nearly 400,000 retail, vending and food service accounts located in just about every community in the nation.

All that strength wouldn't matter if we didn't have top-quality products to deliver. Our core brands have been hugely successful for a very long time. Created in 1938, Lay's potato chips alone is a $1.5 billion brand.

To keep Frito-Lay growing we innovate, providing a steady stream of exciting, satisfying products to meet changing consumer tastes.

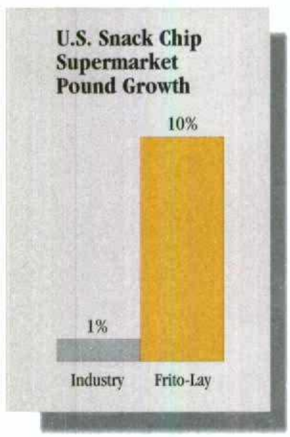
For example, Americans have a love-hate relationship with fat. So for those who want less fat, we've created a line of "Better-For-You" snacks.

They've been tremendously successful. In less than two years, we've built an explosive better-for-you category which already accounts for more than 10% of our total sales, more than 45% of our growth and $600 million in sales.

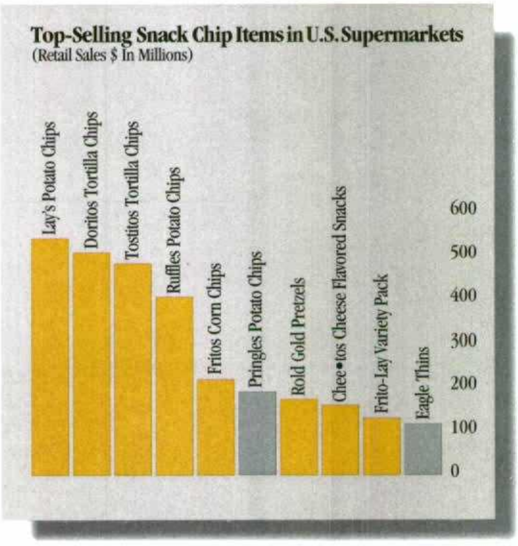
Better-For-You Products

- Baked Tostitos brand tortilla chips
- Rold Gold brand pretzels
- Baked Lay's brand potato crisps
- Reduced Fat Ruffles brand potato chips
- Fat-free dips
- Salsa

We think the opportunity in better-for-you snacks is enormous – and we're aggressively developing products to expand the category. The most recent addition to our lineup, Baked Lay's brand potato crisps, was an immediate hit. Baked Lay's is expected to quickly join the ranks of Frito-Lay's $100 million brands. It may well be the biggest brand extension in snack chip history.



No one product, no matter how wonderful, will produce sustained volume growth in a marketplace of wide-ranging consumer tastes. Frito-Lay's growth is directly linked to its broad array of strong products.



The strength – and potential – of our brand portfolio is pretty clear in the success of our Better-For-You products. In most cases, these are no-fat or low-fat versions of Frito-Lay brands consumers already know and love. Consumers readily accept them

Introduced 1932.
Estimated 1995
Retail Sales: $574 Million.

Introduced 1938.
Estimated 1995
Retail Sales: $1.5 Billion.

Introduced 1948.
Estimated 1995
Retail Sales: $917 Million.

Acquired 1958.
Estimated 1995
Retail Sales: $1.6 Billion.

Acquired 1961.
Estimated 1995
Retail Sales: $364 Million.

Introduced 1966.
Estimated 1995
Retail Sales: $1.7 Billion.

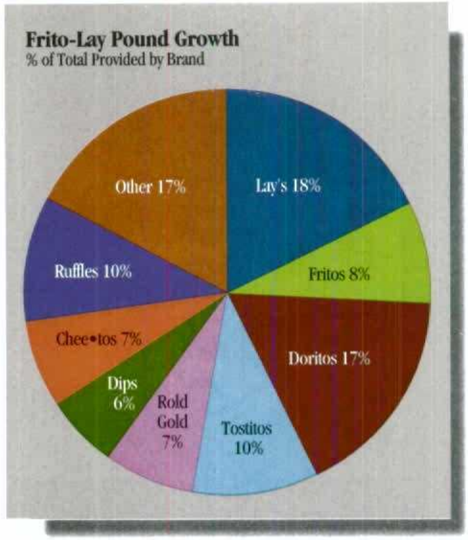
Introduced 1969.
Estimated 1995
Retail Sales: $131 Million.

Introduced 1981.
Estimated 1995
Retail Sales: $754 Million.

Introduced 1986.
Estimated 1995
Retail Sales: $103 Million.

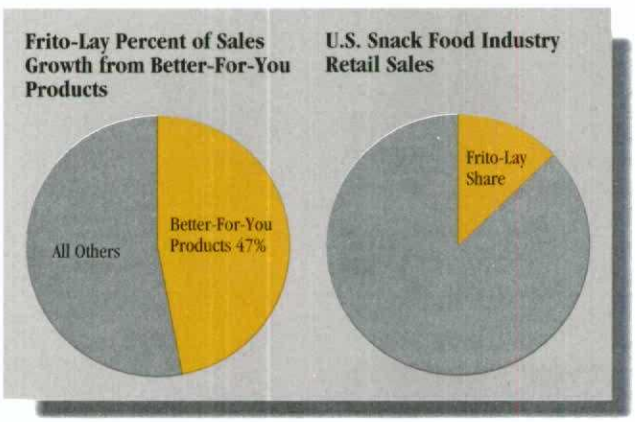
because they know that a product from Frito-Lay means high quality and great taste.

We see lots of opportunity in all our product categories, but especially in areas like pretzels where our 27% share is well below the share we enjoy in other categories.



Outpacing the Industry

Given our broad product portfolio, high quality standards and, by far, the strongest distribution system in the business, Frito-Lay is uniquely qualified to lead industry growth. In fact, Frito-Lay



snack chip products grew faster than the industry in all major distribution channels and in all major snack chip categories.

There's plenty more opportunity ahead because most snacking today still doesn't even include Frito-Lay products. To give you an idea of the opportunity, U.S. retail sales of *all* snack foods – meaning chips, candies, cookies, puddings, dips, nuts and other items – totaled more than $60 billion in 1995. Frito-Lay's share of that was only $7.8 billion – or about 13%. The point: even in the heavily penetrated U.S. market, Frito-Lay has enormous growth opportunities.

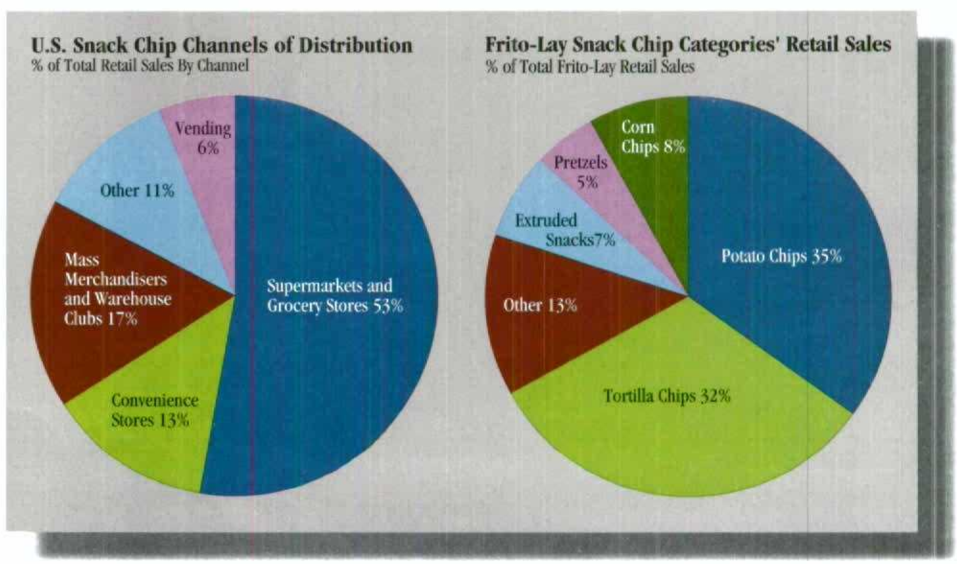
In addition, the snack market is getting bigger. People are snacking more often, both between meals and as part of "snackmeals." By continuing to develop exciting new products, we can fuel that trend and share in that growth.

International

Internationally, we want to be the world's favorite snack company, and we have that goal clearly in focus. We already have a leadership share in most of our 39 international markets, giving us a 30% share of the $18 billion international snack chip market. Our nearest multinational competitor is United Biscuits, and we lead in all but two of the eight major markets in which we compete head-to-head.

As we build our snack business outside the United States, some people wonder whether it's possible to replicate the kind of phenomenal success Frito-Lay has achieved in the United States. The answer is: yes, absolutely. We believe the Frito-Lay success model can be replicated in lots of places. For example, in 1989 we acquired two U.K. snack businesses – now called Walkers – with sales of $460 million. They had some respected brands but weren't growing much. Six years later, after applying the know-how we've gained largely through Frito-Lay, we've about doubled the business – up nearly 17% in 1995 alone.

The story is similar in Mexico, where our



Sabritas snack business, which also posts annual retail sales in the neighborhood of $900 million, is one of the most successful snack food companies in the country.

In our snack businesses around the world, we're strengthening our position by pursuing both product and geographic opportunities.

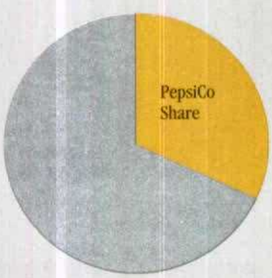
Global Branding

We're building our brands into global powerhouses, with a common name, look and quality. Global branding gives us enormous economies of scale – and a competitive advantage – in purchasing and marketing.

Global Brands	Number of Countries Where Brand is Available
Doritos	17
Cheetos	24
Ruffles	19

A great example of a global brand is our Doritos brand tortilla chips. After offering Doritos in the United States for nearly 30 years, we introduced the brand into the United Kingdom in 1994. Results were so outstanding that we quickly launched it in more than a dozen countries. Today, Doritos is nearly a $300 million brand outside of the United States, but we think it ultimately has the potential to become a $1 billion brand internationally.

International Snack Chip Industry Retail Sales



Global branding works. In 1995 our global brands accounted for virtually all our snack chip growth.

Geographic Expansion

We also have enormous opportunities to expand our snacks geographically. Some two-thirds of the world's population live in markets we haven't yet reached. To realize this potential, we've been entering new markets every year. In 1995 we expanded in Latin America, as well as Saudi Arabia and South Africa. We continued our expansion in Poland and have four Eastern European start-ups under way.

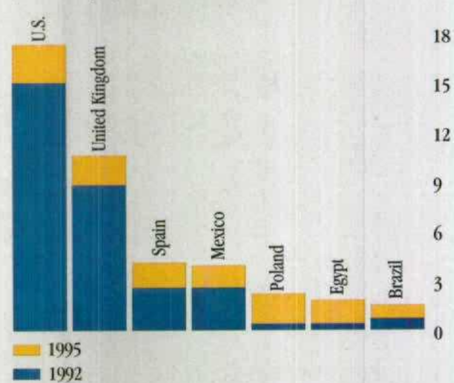
Snack Chip Volume Growth by Country	% Points of Total Growth
Brazil	+4.0
United Kingdom	+3.0
Netherlands	+2.0
Spain	+1.0
Other Countries	+5.0
Mexico	-6.0
Total Growth	+9.0

Probably no market illustrates our vast international opportunity better than China, where we sold 100 million bags of Chee•tos brand snacks in the first year – and believe it or not, we were selling in *only one province*.

Our broadening geographic portfolio is important because it helps us weather economic storms. The weak economy caused a decline in volume in Mexico. But double-digit growth in Brazil, the United Kingdom, the Netherlands and Spain increased international snack chip volume overall.

Our portfolio covers countries in various stages of market development, and we're driving up per capita consumption almost everywhere. In established snack chip markets like the United Kingdom, consumption is growing because we're bringing excitement to the snack market with new products and new packages. In less developed snack chip markets like Turkey and Brazil, we're introducing higher quality products and broadening distribution.

International Snack Chip Consumption Levels
(Lbs. Per Capita)



Compared with U.S. rates, worldwide snack consumption has lots of room to grow. So the opportunity looms large – and we're determined to make the most of it.

Acquired 1989.
Estimated 1995
Retail Sales: $540 Million.
(Sold outside the U.S.)

Introduced 1991.
Estimated 1995
Retail Sales: $199 Million.

Acquired 1992.
Estimated 1995
Retail Sales: $113 Million.
(Sold outside the U.S.)

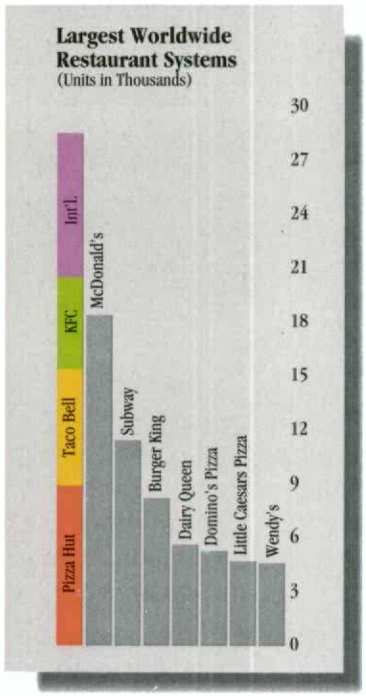
Introduced 1995.

Acquired 1977.
Estimated 1995
U.S. System Retail Sales:
$5.3 Billion.

Acquired 1978.
Estimated 1995
U.S. System Retail Sales:
$4.6 Billion.

Restaurants

The global quick service restaurant industry is a big, dynamic business, with annual sales estimated at more than $150 billion. It's expanding by billions of dollars each year. And best of all, we're one of the only two truly global restaurant companies with the strength and resources to profit from that growth.



PepsiCo's restaurant brands are three of the world's largest and most widely accepted: Pizza Hut, Taco Bell and KFC. We serve more than 17 million consumers every day. Our combined system includes more than 28,000 outlets, more than any other system on earth.

Add it all up and you can see why our system sales grew to $20.1 billion in 1995, making us a strong number two, both in the United States and international markets.

Worldwide System Sales
($ in Billions)
(Compounded Annual Growth Rates)

	1990	1991	1992	1993	1994	1995	5-Year Growth
PH	$ 3.8	$ 4.1	$ 4.3	$ 4.8	$ 5.0	$ 5.3	7%
TB	2.4	2.7	3.2	3.8	4.4	4.6	14
KFC	3.2	3.4	3.4	3.4	3.5	3.7	3
U.S.	9.4	10.2	10.9	12.0	12.9	13.6	8
Int'l.	3.7	4.1	4.8	5.4	5.6	6.5	12
Total	$13.1	$14.3	$15.7	$17.4	$18.5	$20.1	9%

Includes sales from D'Angelo Sandwich Shops, East Side Mario's, Hot 'n Now and Chevys.

Global Restaurant Strategy

To capture the opportunities of that vast marketplace, in 1995 we began pursuing a global restaurant strategy with dramatic financial implications. The strategy essentially focuses on more dynamically building our basic brands, taking greater advantage of our enormous size and operating restaurants far more effectively than we had before.

Part of that involves improving the appearance of our restaurants and creating lots of new products that really get consumers excited. It also means leveraging the huge collective size of our restaurant system to achieve much greater cost savings – like a new global joint purchasing program that will save millions of dollars each year.

Restaurant Unit Growth
(Compounded Annual Growth Rates)

Number of System Units Worldwide
(Year-end 1990-1995)

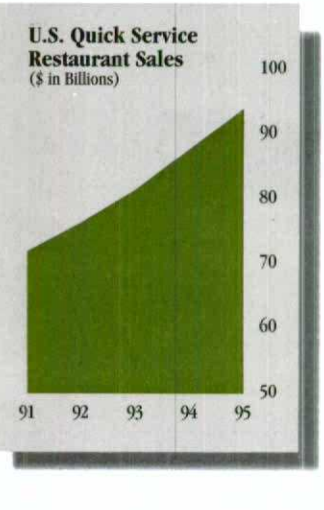
	1990	1991	1992	1993	1994	1995	5-Year Growth
PH	6,868	7,264	7,608	8,138	8,618	8,883	5%
TB	3,303	3,616	4,078	4,809	5,684	6,490	14
KFC	5,006	5,056	5,089	5,128	5,149	5,142	1
U.S.	15,177	15,936	16,775	18,075	19,451	20,515	6
Int'l.	4,579	5,051	5,561	6,312	7,348	8,003	12
Total	19,756	20,987	22,336	24,387	26,799	28,518	8%

Number of System Units Worldwide
(Year-end 1995)

	Pizza Hut	Taco Bell	KFC	Int'l.	Total
Company	5,201	3,133	2,031	2,454	12,819
Joint Venture	-	-	-	926	926
Franchised	2,819	1,779	3,001	4,426	12,025
Licensed	863	1,578	110	197	2,748
Total	8,883	6,490	5,142	8,003	28,518

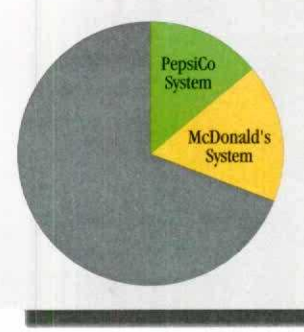
Unit totals include 1,218 kiosks (primarily Pizza Hut) and 2,224 other special concepts (mostly carts and express units). Pizza Hut includes D'Angelo Sandwich Shops (155) and East Side Mario's (35). Taco Bell includes Hot 'n Now (152) and Chevys (69). Units do not include California Pizza Kitchen, 78 joint venture units, all United States, which are included in the 1995 Restaurant Unit Activity count on page 23.

But it's our strategic effort to operate restaurants more effectively that is producing some of the most immediate and dramatic financial results. To upgrade the quality of operations across our system, we began a multi-year effort to sell the company-



operated restaurants we think can be run better by franchisees. At the same time, we slowed development of new company-operated units to gradually reduce our share of the system. As a result, the cash generated by our restaurants improved remarkably – by nearly $600 million in 1995.

U.S. Quick Service Restaurant Retail Sales



Over the year, the number of units in our system grew by 6%, much like in prior years. But the proportion of company units was down from 47% to 45%.

United States

Now, more than ever, eating out is an important part of American life. In 1955, 25% of food dollars were spent away from home. Today that number approaches 45%.

This trend has made quick service restaurants a $94 billion industry that has grown at a compounded annual rate of 6% over the past five years.

Although the quick service restaurant industry is tremendous, it's also very fragmented. We compete not only against the top national chains, but also against hundreds of smaller chains. Our 14% share of sales is just under McDonald's share.

Innovation

We've long known that great products build great brands. The challenge is to create exciting new products and to make our products more widely available, so hungry consumers can easily reach for them anytime and anywhere.

Our restaurants turned out a steady stream of new products in 1995 – like Chunky Chicken Pot Pie and Colonel's Crispy Strips at KFC and Sizzlin' Bacon products and the Border Lights line at Taco Bell.

But it was Stuffed Crust Pizza that *really* showed what product innovation can do for a consumer business. By the end of the year, Stuffed Crust had become one of Pizza Hut's biggest brands, and in the process it helped increase Pizza Hut system sales by $300 million.

Altogether in 1995, new products from KFC, Pizza Hut and Taco Bell brought in nearly $1.5 billion in system sales.

This focus on innovation produced great results. At both KFC and Pizza Hut same store sales grew faster than the industry.

Over the past five years, all three chains have increased their average sales per unit.

Distribution

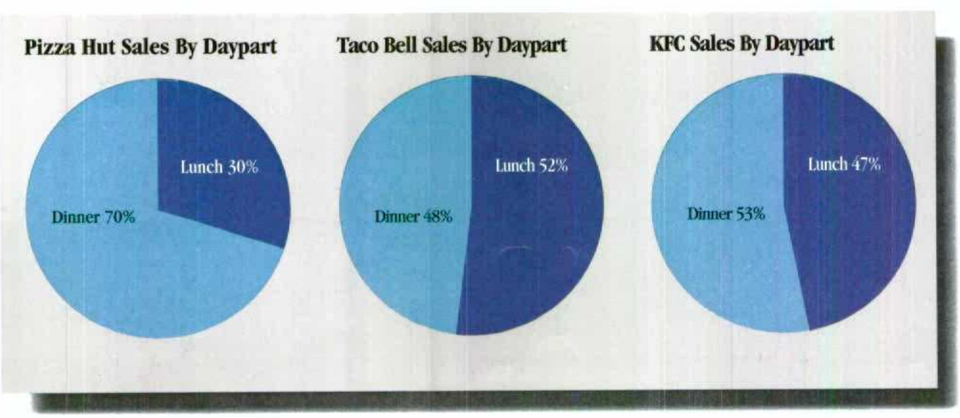
We grow in other ways, too. For example, we've found that Taco Bell, with its lunch crowd, and KFC, with its dinner rush, combined into one unit can increase sales. Our "two-in-one" restaurants are pulling in sales more than 20% higher than single concept units.

Average U.S. System Sales Per Unit
($ in Thousands)
(Compounded Annual Growth Rates)

	1990	1991	1992	1993	1994	1995	5-Year Growth
PH	$607	$613	$612	$651	$634	$651	1%
TB	771	814	866	925	953	925	4
KFC	650	675	684	685	706	733	2

Excludes sales from kiosks and other special concepts, D'Angelo Sandwich Shops, East Side Mario's, Hot 'n Now, Chevys and California Pizza Kitchen.

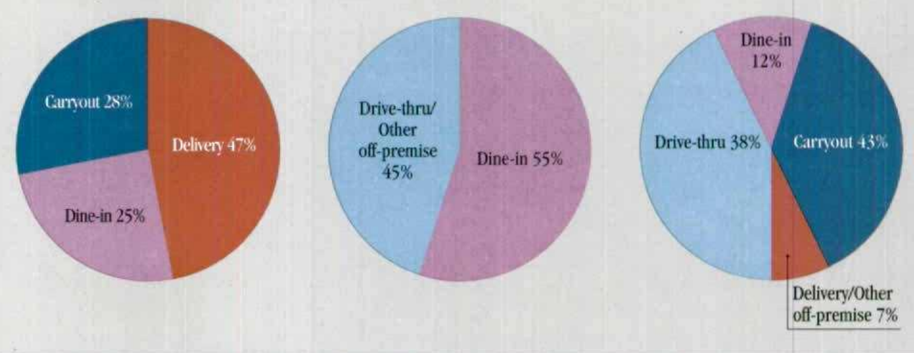
Expanding distribution also leads to growth. Not many food items can be delivered and still arrive hot. But pizza and chicken can. In fact, almost half of Pizza Hut's sales are now through delivery, up from 30% just five years ago. Now KFC is entering the delivery arena with about 400 KFC units currently offering delivery.



Acquired 1986.
Estimated 1995
U.S. System Retail Sales:
$3.7 Billion.

Each of our concepts leads its category. Pizza Hut has twice the market share of the next largest pizza chain. KFC is more than five times as big as its closest chicken competitor. And Taco Bell defines the Mexican category with more than two-thirds of the business. As busy consumers continue to seek out great food, convenience and value, we see our restaurants playing an even greater part in their lives.

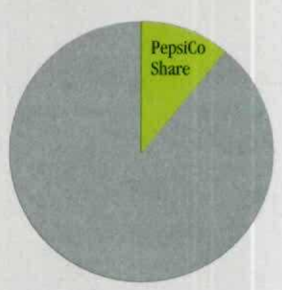
U. S. Pizza Hut Sales By Distribution Channel (Company-operated units) | **U.S. Taco Bell Sales By Distribution Channel** (Company-operated units) | **U. S. KFC Sales By Distribution Channel** (Company-operated units)



International

Outside of the United States and a few other countries, the quick service restaurant industry remains in its infancy. The entire international quick service restaurant industry is about $60 billion. PepsiCo's share is $6.5 billion.

International Quick Service Restaurant Industry Retail Sales



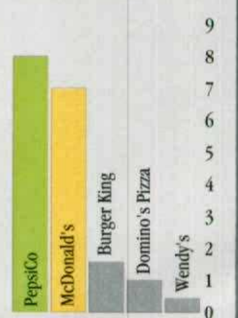
Internationally our system has more than 8,000 restaurants, mostly Pizza Hut and KFC. Few other quick service restaurant companies have staked out a real global claim. Only McDonald's comes close to us.

Appealing to Consumers

The broad challenge is to make quick service restaurants a part of everyday life everywhere. We're leading the way. In fact, the world's busiest KFC restaurant can be found in Shanghai and the Pizza Hut with the highest sales is in Paris.

We appeal to international consumers much the same way we do in the United States – by delivering great food, service and value and by making product news and expanding distribution. Often we tailor our products and services to local tastes. For example, in Germany many Pizza Hut units have windows where pedestrians can buy pizza by the slice – 40% of our customers buy by the slice.

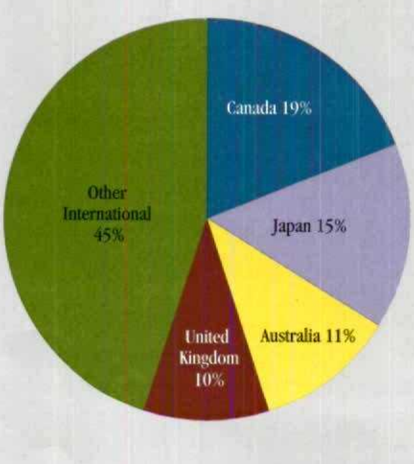
Largest International Quick Service Restaurants (Units in Thousands)



Serving the World

We've only scratched the surface of the earth's restaurant potential. Although we're operating in more than 90 countries, better than half of our units can be found in just four markets: Canada, Japan, Australia and the United Kingdom – which together have less than 5% of the international population.

Distribution of International Restaurants



That leaves us lots of room to grow. In the rest of the world – which includes more than five billion people – there are only a handful of our restaurants in any one country.

Our products, especially chicken and pizza, are almost universally accepted and enjoyed. The demand is there. We see the potential to grow in every direction we look.

PepsiCo Restaurants International

Formed 1994. Estimated 1995 International System Retail Sales: $6.5 Billion.

PFS

Hot 'n Now

Acquired 1990.

California Pizza Kitchen

Formed Joint Venture 1992.

East Side Mario's

Acquired 1993.

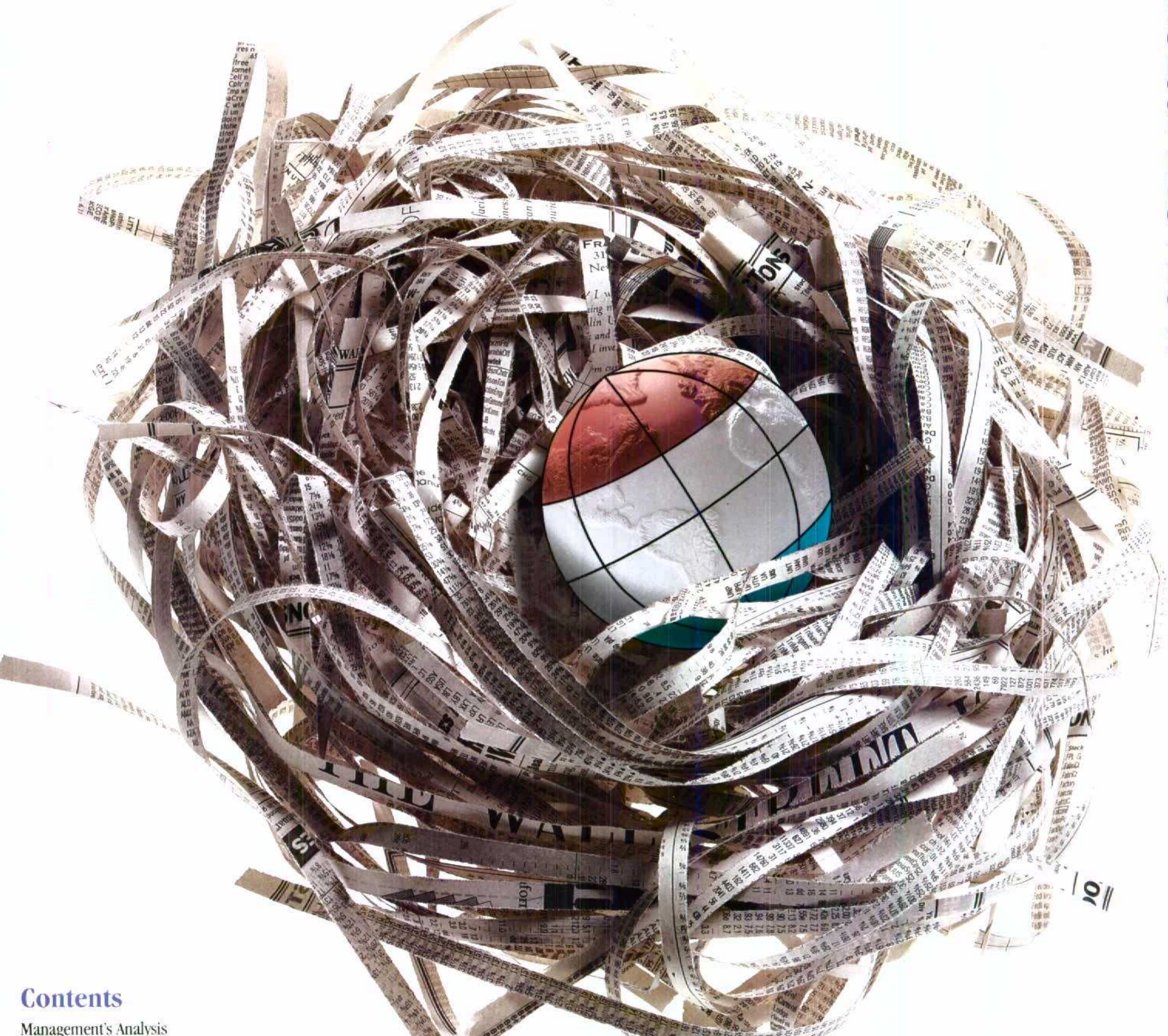
D'Angelo Sandwich Shops

Acquired 1993.

Chevys Mexican Restaurant

Acquired 1993.

Financial Review



Contents

Management's Analysis

Introduction

PepsiCo's Management's Analysis is structured in four sections. The first section provides an overview and focuses on items that either significantly impact comparability of reported financial information or are anticipated to significantly impact future operating results. The second section analyzes the results of operations; first on a consolidated basis and then for each of PepsiCo's three industry segments. The final sections address PepsiCo's consolidated cash flows and financial condition. Management's Analysis should be read in conjunction with PepsiCo's audited consolidated financial statements, including Notes, on pages 30 through 45.

Worldwide Marketplace

PepsiCo's worldwide businesses operate in highly competitive markets that are subject to both global and local economic conditions, including the effects of inflation, commodity price and currency fluctuations, governmental actions and political instability and its related dislocations. In addition to extensive market and product diversification, PepsiCo's operating and investing strategies are designed, where possible, to mitigate these factors through focused actions on several fronts, including: (a) enhancing the appeal and value of its products through brand promotion, product innovation, quality improvement and prudent pricing actions; (b) providing excellent service to customers; (c) increasing worldwide availability of its products; (d) acquiring businesses and forming alliances to increase market presence and utilize resources more efficiently; and (e) containing costs through efficient and effective purchasing, manufacturing, distribution and administrative processes.

In 1995, international businesses represented 29% of PepsiCo's net sales and 18% of operating profit excluding the initial, noncash charge upon adoption of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," (see Accounting Changes below). Management believes that these percentages will increase in the future as PepsiCo continues to invest internationally to take advantage of market opportunities. It is therefore important to consider that movements in currency exchange rates not only result in a related translation impact on PepsiCo's earnings, but also, and probably more importantly, can result in significant economic impacts that affect operating results as well. Changes in exchange rates are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. In addition, material changes generally cause PepsiCo to adjust its financing, investing and operating strategies; for example, promotions and product strategies, pricing, and decisions concerning capital spending, sourcing of raw materials and packaging (see discussion on Mexico below). The following paragraphs describe the effect of currency exchange rate movements on PepsiCo's reported results.

As currency exchange rates change, translation of the income statements of our international businesses into U.S. dollars affects year-over-year comparability of operating results. With the exception of Mexico in 1995, sales and operating profit growth rates for our combined international businesses were not materially impacted by the translation effects of changes in currency exchange rates in the last three years. Material effects on comparability of sales and operating profit arising from translation are identified in Management's Analysis of operating results. By definition, these translation effects exclude the impact of businesses in highly inflationary countries, where the accounting functional currency is the U.S. dollar.

Changes in currency exchange rates also result in reported foreign exchange gains and losses, which are included as a component of selling, general and administrative expenses. PepsiCo reported a net foreign exchange loss of $6 million in 1995 compared to a net foreign exchange gain of $4 million in 1994 and a net foreign exchange loss of $41 million in 1993. These reported amounts include translation gains and losses arising from remeasurement into U.S. dollars of the monetary assets and liabilities of businesses in highly inflationary countries as well as transaction gains and losses. Transaction gains and losses arise from monetary assets such as receivables and short-term interest-bearing investments as well as payables (including debt) denominated in currencies other than a business unit's functional currency. In implementing strategies to minimize net after-tax financing costs, the effects of anticipated currency exchange rate movements on debt and short-term investments are considered together with related interest rates.

In 1995, Mexico was an extreme example of how movements in currency exchange rates impact operating results. In Mexico, PepsiCo's largest international market in 1994, operations were adversely impacted by the effects of the approximately 50% devaluation of the Mexican peso which triggered an extremely high level of inflation. Consumer demand shrank dramatically for most goods and services in response to declining real incomes and increased unemployment. Price increases taken to offset rising operating and product costs further dampened weak consumer demand. Actions taken by PepsiCo to mitigate these adverse effects, such as introducing various volume building programs to stimulate demand and reducing costs and capital spending, resulted in only a modest decline in local currency segment operating profit for Mexico. However, on a U.S. dollar basis, combined segment operating profit and identifiable assets in Mexico declined dramatically, reflecting the unfavorable translation effect of the much weaker peso in 1995. The following estimated decline in net income and net income per share for PepsiCo's operations in Mexico reflected the decrease in Mexico's combined segment operating profit (see each industry segment discussion for the impact by segment) and PepsiCo's equity share of the increased net losses of our unconsolidated affiliates in Mexico:

			Year-Over-Year Decline	
($ in millions except per share amounts)	**1995**	1994	Reported	Ongoing *
Net sales	**$1,228**	$2,023	(39%)	(39%)
Operating profit	**$ 80**	$ 261	(69%)	(61%)
Operating profit margin	**7%**	13%	(6 points)	(5 points)
% of total international segment operating profit	**18%**	42%	(24 points)	(26 points)
% of total segment operating profit	**3%**	8%	(5 points)	(5 points)
Net income	**$ 55**	$ 175	(69%)	(57%)
Net income per share	**$ 0.07**	$ 0.22	(68%)	(55%)
Identifiable assets	**$ 637**	$ 995	(36%)	(34%)

** Excluded Mexico's portion of the 1995 initial, noncash charge upon adoption of SFAS 121 of $21 million ($21 million after-tax or $0.03 per share) (see below).*

All amounts for Mexico presented above and, unless otherwise noted, in Management's Analysis of Industry Segments included an allocation of the international divisions' headquarters expenses, but excluded any allocation of PepsiCo's corporate expenses and financing costs.

Certain Factors Affecting Comparability

Accounting Changes

PepsiCo's financial statements reflect the noncash impact of accounting changes adopted in 1995 and 1994. PepsiCo early adopted SFAS 121 as of the beginning of the fourth quarter of 1995. The initial, noncash charge upon adoption of SFAS 121 was $520 million ($384 million after-tax or $0.48 per share), which included $68 million ($49 million after-tax or $0.06 per share)

related to restaurants for which closure decisions were made during the fourth quarter. As a result of the reduced carrying amount of certain of PepsiCo's long-lived assets to be held and used in the business, depreciation and amortization expense for the fourth quarter of 1995 was reduced by $21 million ($15 million after-tax or $0.02 per share) and full-year 1996 depreciation and amortization expense is expected to be reduced by approximately $58 million ($39 million after-tax or $0.05 per share). As the initial charge was based upon estimated cash flow forecasts requiring considerable management judgment, actual results could vary significantly from these estimates. Therefore, future charges, though not of the magnitude of the initial charge, are reasonably possible although not currently estimable. See Note 2. See Management's Analysis – Restaurants on page 22 for a discussion of other possible future effects related to this change in accounting.

In 1994, PepsiCo adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." The cumulative effect of adopting SFAS 112, an $84 million charge ($55 million after-tax or $0.07 per share), principally represented estimated future severance costs related to services provided by employees prior to 1994. As compared to the previous accounting method, the ongoing impact of adopting SFAS 112 was immaterial to 1994 operating profit. See Note 14.

Also in 1994, PepsiCo adopted a preferred method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization. The cumulative effect of adopting this change, which related to years prior to 1994, was a benefit of $38 million ($23 million after-tax or $0.03 per share). As compared to the previous accounting method, the change reduced 1994 pension expense by $35 million ($22 million after-tax or $0.03 per share). See Note 13.

Restaurant Segment

In addition to reporting U.S. and international results, PepsiCo has historically provided detailed information and Management's Analysis of operating results for each of its three major restaurant concepts (which included the results of other small U.S. concepts managed by Taco Bell and Pizza Hut) on a worldwide basis. Beginning with the fourth quarter of 1995, PepsiCo has changed the presentation of the restaurant information to more closely reflect how we currently manage the business. Detailed information and Management's Analysis of operating results are now provided for each of PepsiCo's three major U.S. concepts (including the results of the other small U.S. concepts managed by Taco Bell and Pizza Hut) and in total for the international operations of our restaurant concepts. Prior year amounts in Note 19 and Management's Analysis – Restaurants have been restated to reflect this change.

As discussed in Management's Analysis – Restaurants on page 22, we began to take actions in 1995 to improve restaurant returns, in part, by selling restaurants to franchisees. In addition, we have more aggressively closed stores that do not meet our performance expectations. As a result, restaurant operating profit included a net gain of $51 million in 1995 from sales of restaurants to franchisees in excess of the costs of closing other restaurants. This compares to $10 million of costs in 1994 to close stores. Management expects these kinds of actions to continue over the next few years as we implement our strategies to improve restaurant returns.

Other Factors

Comparisons of 1995 to 1994 are affected by an additional week of results in the 1994 reporting period. Because PepsiCo's fiscal year ends on the last Saturday in December, a fifty-third week is added every 5 or 6 years. The fifty-third week increased 1994 net sales by an estimated $434 million and earnings by an estimated $54 million ($35 million after-tax or $0.04 per share). See Items Affecting Comparability – Fiscal Year in Note 19 for the impact on each of PepsiCo's industry segments.

In 1994, PepsiCo recorded a onetime, noncash gain of $18 million ($17 million after-tax or $0.02 per share) resulting from a public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America. See Note 16.

Although it will not affect comparison of full-year operating results, international beverages' 1996 quarterly results will not be comparable to 1995's results because its 1996 quarterly reporting will be changed for all international countries except Canada. Due to the increase in company-owned bottling operations, in combination with the requirements that calendar year results generally need to be maintained internationally for statutory purposes, international beverages has elected to simplify its administrative processes by reporting results on a monthly basis. Beginning in 1996, the first through the fourth quarters will include two, three, three and four months, respectively. The comparable quarters in 1995 included twelve, twelve, twelve and sixteen weeks, respectively.

Significant U.S. Tax Changes Affecting Historical and Future Results

U.S. Federal income tax legislation enacted in August 1993 included a provision for a 1% statutory income tax rate increase effective for the full year. As required under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," the increase in the tax rate resulted in a noncash charge of $30 million ($0.04 per share) for the adjustment of net deferred tax liabilities as of the beginning of 1993. The 1993 legislation also included a provision to reduce the tax credit associated with beverage concentrate operations in Puerto Rico. In the first year of this change, the tax credit on income earned in Puerto Rico was limited to 60% of the amount allowed under the previous tax law, with the limit further reduced ratably over the following four years to 40%. The provision, which became effective for PepsiCo's operations on December 1, 1994, had an immaterial impact on 1994 earnings. The provision reduced 1995 earnings by approximately $58 million or $0.07 per share.

In 1994, the U.S. Department of the Treasury proposed a change to a current regulation (known as Q&A 12), which would further reduce the tax incentives associated with beverage concentrate operations in Puerto Rico. If it had been adopted as proposed in 1994, the change would have become effective for PepsiCo on December 1, 1994 with an immaterial impact on 1994 earnings. Had the currently proposed Q&A 12 been in effect at the beginning of 1995, earnings for the year would have been reduced by an estimated $44 million, or $0.05 per share, and the 1995 full-year effective tax rate would have increased 1.8 points.

Assuming retroactivity to December 1, 1994 and assuming 1996 profitability levels comparable to 1995, enactment of the proposed change to Q&A 12 in 1996 would increase PepsiCo's 1996 full-year effective tax rate by about 3.7 points. Slightly more than half of the potential increase is due to the retroactive application of the change to Q&A 12 to years prior to 1996 with the balance attributable to 1996 earnings. The estimated impacts and the proposed retroactive effective date to December 1, 1994 are subject to change depending upon the final provisions of Q&A 12, if enacted, and the actual level of profitability in 1996.

Under generally accepted accounting principles, the unfavorable effect of the proposed change in Q&A 12 cannot be included in PepsiCo's effective tax rate until it is enacted. Due to its proposed retroactivity, the amount related to the periods prior to its enactment date will be recognized in full in the quarter it is enacted. This, along with PepsiCo's policy to recognize settlement of prior year audit issues at the time they are resolved, may result in volatility in PepsiCo's 1996 quarterly effective tax rates due to the timing of these events, as well as other factors.

Derivatives

PepsiCo's policy prohibits the use of derivative instruments for trading purposes and we have procedures in place to monitor and control their use.

PepsiCo uses interest rate and foreign currency swaps to effectively change the interest rate and currency of specific debt issuances with the objective of reducing borrowing costs. These swaps are generally entered into concurrently with the issuance of the debt they are intended to modify. The notional amount, interest payment dates and maturity dates of the swaps match the principal, interest payment dates and maturity dates of the related debt. Accordingly, any market impact (risk or opportunity) associated with these swaps is fully offset by the opposite market impact on the related debt. PepsiCo's credit risk related to interest rate and currency swaps is considered low because they are only entered into with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. See Notes 7, 8 and 9 for additional details regarding interest rate and currency swaps.

In 1995, PepsiCo issued a seven-year put option in connection with the formation of a joint venture with the principal shareholder of GEMEX, an unconsolidated franchised bottling affiliate in Mexico. The put option allows the principal shareholder to sell up to 150 million GEMEX shares to PepsiCo at 66 2/3¢ per share. PepsiCo accounts for this put option by marking it to market with gains or losses recognized currently as an adjustment to equity in net income of unconsolidated affiliates, which is included in selling, general and administrative expenses in the Consolidated Statement of Income. The put option liability, which was valued at $26 million at the date of the original transaction, increased to $30 million by year-end, resulting in a $4 million charge to earnings. See Notes 7, 9 and 17.

PepsiCo hedges commodity purchases with futures contracts traded on national exchanges. While such hedging activity has historically been done on a limited basis, PepsiCo could increase its hedging activity in the future if it believes it would result in lower total costs. Open contracts at year-end 1995 and 1994 and gains and losses realized in 1995 and 1994 or deferred at the respective year-ends were not significant.

Forward-Looking Statements

Included in the Chairman's Letter and Management's Analysis, on pages 1 and 14, respectively, are certain forward-looking statements reflecting management's current expectations. Uncertainties that could impact those forward-looking statements are described in Management's Analysis – Worldwide Marketplace on page 14. In addition, forward-looking statements related to future earnings growth contemplate double-digit combined segment operating profit growth and the ability, for the next several years, to generate significant gains from the sale of our restaurants to franchisees in excess of costs of closing restaurants and impairment charges, but do not consider the retroactive impact of the proposed change to Q&A 12 discussed above.

Results of Operations

Consolidated Review

To improve comparability, Management's Analysis identifies the impact, where significant, of beverage and snack food acquisitions, net of operations sold or contributed to joint ventures (collectively, "net acquisitions"). The impact of acquisitions represents the results of the acquired businesses for periods in the current year corresponding to the prior year periods that did not include the results of the businesses. Restaurant units acquired, principally from franchisees, and constructed units are treated the same for purposes of this analysis. These units, net of units closed or sold, principally to franchisees, are collectively referred to as "additional restaurant units."

Net Sales

				% Growth Rates	
($ in millions)	**1995**	1994	1993	**1995**	1994
U.S.	**$21,674**	$20,246	$18,309	**7**	11
International	**8,747**	8,226	6,712	**6**	23
	$30,421	$28,472	$25,021	**7**	14

Worldwide net sales rose $1.9 billion or 7% in 1995. The fifty-third week in 1994 reduced the worldwide, U.S. and international net sales growth by approximately 2 points each. The sales growth benefited from higher effective net pricing, volume gains of $934 million, driven by worldwide snack foods and beverages, and $623 million due to additional restaurant units. The higher effective net pricing reflected increases in international snack foods, driven by Mexico, and U.S. beverages, primarily in response to significantly higher prices for packaging. These benefits were partially offset by the unfavorable currency translation impact of the devaluation of the Mexican peso on international snack foods. Worldwide net sales grew $3.5 billion or 14% in 1994. The fifty-third week favorably affected worldwide, U.S. and international sales growth by about 2 points each. The increase reflected volume gains of $2.2 billion, $934 million due to additional restaurant units and $215 million contributed by net acquisitions.

International net sales grew 6% in 1995 and 23% in 1994 with net acquisitions contributing 1 point in both years. International net sales represented 29%, 29% and 27% of total net sales in 1995, 1994 and 1993, respectively. The unfavorable impact of the devaluation of the Mexican peso beginning in late 1994 through 1995, and its related effects, slowed PepsiCo's trend of an increasing international component of net sales.

Cost of Sales

($ in millions)	**1995**	1994	1993
Cost of sales	**$14,886**	$13,715	$11,946
As a percent of net sales	**48.9%**	48.2%	47.7%

The .7 point increase in 1995 was primarily due to worldwide beverages and international snack foods. The increase in worldwide beverages reflected higher packaging prices in the U.S., the effects of which were partially mitigated by increased pricing, and an unfavorable mix shift in international sales from concentrate to packaged products. The international snack foods increase was due to the effect of increased costs, primarily in Mexico, which were partially mitigated by price increases. The .5 point increase in 1994 reflected an unfavorable mix shift in international beverages, from concentrate to packaged products, and in worldwide restaurants, as well as lower net pricing in U.S. beverages. These unfavorable effects were partially offset by a favorable package and product mix shift in international snack foods and manufacturing efficiencies in U.S. snack foods.

Selling, General and Administrative Expenses (S,G&A)

($ in millions)	**1995**	1994	1993
S,G&A	**$11,712**	$11,244	$9,864
As a percent of net sales	**38.5%**	39.5%	39.4%

S,G&A is comprised of selling and distribution expenses (S&D), advertising and marketing expenses (A&M), and general and administrative expenses (G&A) which include gains on sales of assets as well as other income and expense. S,G&A grew 4% to $11.7 billion in 1995, slower than sales, and 14% to $11.2 billion in 1994, the same rate as sales. In 1995, A&M grew at a substantially slower rate than sales reflecting a slower rate of spending in worldwide beverages and U.S. restaurants. G&A also grew at a substantially slower rate than sales, driven by worldwide beverages and U.S. restaurants. Worldwide beverages benefited from international cost contain-

ment initiatives, a gain on sale of an international bottling plant, savings in U.S. beverages from a 1994 reorganization as well as benefits of increased pricing in U.S. beverages. U.S. restaurants benefited from a net gain on sales of restaurants in excess of costs of closing other restaurants. S&D grew at a slightly slower rate than sales, in part reflecting the benefits of increased pricing in U.S. beverages and a slower rate of spending in international snack foods.

Amortization of intangible assets increased 1% to $316 million in 1995 and 3% to $312 million in 1994. This noncash expense reduced net income per share by $0.30, $0.29 and $0.28 in 1995, 1994 and 1993, respectively.

Impairment of long-lived assets reflected the initial, noncash charge of $520 million ($384 million after-tax or $0.48 per share) upon adoption of SFAS 121. See Note 2.

Operating Profit

($ in millions)	1995	1994	1993	% Growth Rates 1995	% Growth Rates 1994
Operating Profit					
Reported	**$2,987**	$3,201	$2,907	**(7)**	10
*Ongoing**	**$3,507**	$3,201	$2,907	**10**	10

** 1995 excluded the initial, noncash charge upon adoption of SFAS 121. See Note 2.*

Reported operating profit declined $214 million or 7% in 1995. Ongoing operating profit increased $306 million or 10% in 1995. The fifty-third week in 1994 reduced the operating profit growth by approximately 2 points. The profit growth was driven by combined segment ongoing operating profit growth of 11%, which benefited from volume growth of $283 million ($430 million excluding the impact of the fifty-third week), driven by U.S. snack foods and worldwide beverages, and $76 million due to additional restaurant units. These advances were partially offset by net unfavorable currency translation impacts, primarily from Mexico. The benefit of higher effective net pricing for all segments combined was almost entirely offset by increased product and operating costs, primarily in Mexico, and higher packaging prices in the U.S. The ongoing operating profit margin increased slightly to 11.5% in 1995. Operating profit increased $294 million or 10% in 1994. The fifty-third week increased the operating profit growth by approximately 2 points. The profit growth was driven by combined segment operating profit growth of 8%, which reflected $850 million from higher volumes ($703 million excluding the impact of the fifty-third week) and $73 million from additional restaurant units, partially offset by higher operating expenses. The profit margin decreased almost one-half point to 11.2% in 1994.

International segment ongoing profit grew 4% in 1995, a slower rate than sales growth, which reflected the adverse effects of the Mexican peso devaluation, particularly in snack foods, partially offset by very strong restaurant performance. International segment ongoing profit represented 18%, 19% and 18% of combined segment ongoing operating profit in 1995, 1994 and 1993, respectively.

Gain on stock offering by an unconsolidated affiliate of $18 million ($17 million after-tax or $0.02 per share) in 1994 related to the public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America. See Note 16.

Interest Expense, net

($ in millions)	1995	1994	1993	% Growth Rates 1995	% Growth Rates 1994
Interest expense	**$(682)**	$(645)	$(573)	**6**	13
Interest income	**127**	90	89	**41**	1
Interest expense, net	**$(555)**	$(555)	$(484)	**–**	15

Interest expense, net in 1995 was even with 1994, reflecting the net impact of higher average interest rates offset by lower average borrowings. The 15% increase in 1994 reflected higher average borrowings, partially offset by higher interest rates on investment balances. Excluding the impact of net acquisitions, interest expense, net decreased 3% in 1995 and increased 10% in 1994.

Provision for Income Taxes

($ in millions)	1995	1994	1993
Reported			
Provision for Income Taxes	**$826**	$880	$835
Effective Tax Rate	**34.0%**	33.0%	34.5%
*Ongoing**			
Provision for Income Taxes	**$962**	$880	$809
Effective Tax Rate	**32.6%**	33.0%	33.3%

** Excluded the effects of the initial, noncash charge upon adoption of SFAS 121 in 1995 (see Note 2) and the deferred tax charge due to the U.S. tax legislation in 1993 (see Note 11).*

The 1995 reported effective tax rate increased 1 point to 34.0%. The 1995 ongoing effective tax rate declined slightly, reflecting a reversal of prior year accruals no longer required and tax refunds, both a result of the current year resolution of certain prior years' audit issues. These benefits were partially offset by a higher foreign effective tax rate, primarily due to a provision in the 1993 U.S. tax legislation that reduced the tax credit associated with beverage concentrate operations in Puerto Rico and became effective for PepsiCo on December 1, 1994 (see Management's Analysis – Significant U.S. Tax Changes Affecting Historical and Future Results on page 15), and a decrease in the proportion of income taxed at lower foreign rates. The 1994 reported effective tax rate declined 1½ points to 33.0%. The slight decline in the ongoing effective tax rate in 1994 reflected a reversal of certain valuation allowances related to deferred tax assets and an increase in the proportion of income taxed at lower foreign rates offset by the absence of a favorable adjustment in 1993 of certain prior years' foreign accruals.

Income and Income Per Share Before Cumulative Effect of Accounting Changes

($ in millions except per share amounts)	1995	1994	1993	% Growth Rates 1995	% Growth Rates 1994
Reported					
Income	**$1,606**	$1,784	$1,588	**(10)**	12
Income Per Share	**$ 2.00**	$ 2.22	$ 1.96	**(10)**	13
*Ongoing**					
Income	**$1,990**	$1,767	$1,618	**13**	9
Income Per Share	**$ 2.48**	$ 2.20	$ 2.00	**13**	10

** Excluded the initial, noncash charge upon adoption of SFAS 121 in 1995 (see Note 2), the 1994 BAESA gain (see Note 16) and the deferred tax charge due to the U.S. tax legislation in 1993 (see Note 11).*

Growth in ongoing income per share was depressed by estimated dilution from acquisitions of $0.04 or 2 points in 1995 and $0.03 or 2 points in 1994, primarily due to international beverage acquisitions and investments in new unconsolidated affiliates in both years.

Industry Segments

Beverages

($ in millions)	1995	1994	1993	% Growth Rates 1995	% Growth Rates 1994
Net Sales					
U.S.	**$ 6,977**	$6,541	$5,918	**7**	11
International	**3,571**	3,146	2,720	**14**	16
	$10,548	$9,687	$8,638	**9**	12
Operating Profit					
Reported					
U.S.	**$ 1,145**	$1,022	$ 937	**12**	9
International	**164**	195	172	**(16)**	13
	$ 1,309	$1,217	$1,109	**8**	10
*Ongoing**					
U.S.	**$ 1,145**	$1,022	$ 937	**12**	9
International	**226**	195	172	**16**	13
	$ 1,371	$1,217	$1,109	**13**	10

** 1995 excluded the initial, noncash charge upon adoption of SFAS 121. See Notes 2 and 19.*

[Note: Unless otherwise noted, operating profit comparisons within the 1995 vs. 1994 discussion are based on ongoing operating profit. Net sales and operating profit comparisons within the following discussions include the impact of the fifty-third week in 1994 (see Note 19). System bottler case sales of Pepsi Corporate brands (BCS) were not impacted by the fifty-third week because they are measured on a calendar year basis.]

1995 vs. 1994

Worldwide net sales increased $861 million or 9%. The fifty-third week in 1994 reduced the worldwide net sales growth by approximately 1 point. Comparisons are also affected by the start-up of international company-owned bottling and distribution operations within the past twelve months ("start-up operations") and acquisitions, principally international, as well as the absence of certain small operations sold or contributed to joint ventures (collectively, "net acquisitions"). The start-up operations and net acquisitions contributed $93 million and $56 million, respectively, or 2 points on a combined basis to the sales growth.

Reported worldwide operating profit increased $92 million or 8%. Excluding the initial charge upon adoption of SFAS 121, which for beverages only affected our operations in Germany, operating profit increased $154 million or 13%. The fifty-third week in 1994 reduced ongoing worldwide operating profit growth by approximately 1 point.

Sales in the U.S. rose $436 million or 7%. The fifty-third week in 1994 reduced sales growth by approximately 2 points. The sales growth reflected higher pricing on most carbonated soft drink (CSD) packages, primarily in response to significantly higher prices for packaging. Sales growth also benefited from increased volume which contributed $107 million.

BCS consists of sales of packaged products to retailers and through vending machines and fountain syrup by company-owned and franchised bottlers. BCS in the U.S. increased 4%, reflecting double-digit growth in the Mountain Dew brand and solid increases in Brand Pepsi. BCS growth also benefited from increased sales of Mug brand root beer. Total alternative beverages, which include Lipton brand ready-to-drink tea, All Sport and Ocean Spray Lemonade products, grew at a strong double-digit rate, reflecting growth in Lipton brand tea and All Sport, partially offset by significant declines in Ocean Spray Lemonade products, albeit on a small base. The growth in Lipton, which represents approximately 80% of our alternative beverages BCS, was due to volume gains from Lipton Brisk and fountain syrup which more than offset lower volume of the premium-priced Lipton Original. Excluding the alternative beverages, BCS growth was 3%. Packaged products BCS grew at a faster rate than fountain syrup.

Profit in the U.S. increased $123 million or 12%. The fifty-third week in 1994 reduced the operating profit growth by approximately 1 point. Profit growth reflected the higher pricing on CSD packages and concentrate which exceeded the increased product costs, primarily for packaging. Volume gains, driven by packaged products, contributed $52 million ($107 million excluding the impact of the fifty-third week) to the profit growth. Administrative expenses declined, reflecting savings from a 1994 consolidation of headquarters and field operations. Selling and distribution expenses grew at a slower rate than sales, in part reflecting the benefits of increased pricing, partially offset by the effects of a 6-week strike in California that ended in August. Advertising and marketing expenses increased modestly. Profit growth was aided by favorable results from alternative beverages due to higher profit from Lipton. Profit growth was dampened by the absence of 1994 gains totaling $9 million resulting from sales of bottling businesses. The profit margin increased nearly 1 point to 16.4%.

In 1995, U.S. beverages continued to execute actions related to the previously disclosed 1992 restructuring. Benefits in 1995 were offset by incremental costs associated with the continued development and implementation of the restructuring actions. The amount and timing of currently projected benefits are consistent with the revised projections as noted below in the 1994 vs. 1993 discussion.

International sales rose $425 million or 14%. The sales growth was not affected by the fifty-third week in 1994. Start-up operations, principally in Eastern Europe, and net acquisitions, consisting primarily of franchised and independent bottling operations in Asia, contributed $93 million and $44 million, respectively, or 5 points to the sales growth on a combined basis. Sales growth benefited from volume advances of $194 million, reflecting increased volume of packaged product sales and concentrate shipments to franchised bottlers, particularly in markets where we are investing heavily because we believe they have high growth potential (Growth Markets). Growth Markets primarily include Brazil, China, Eastern Europe and India. Sales growth was also aided by higher effective net prices on concentrate and packaged products due, in part, to product, package and country mix. Unfavorable currency translation impacts, primarily due to a weaker Mexican peso, were substantially offset by favorable currency translation impacts, primarily reflecting the strength of the Japanese yen and Western European currencies.

International BCS grew 8%. This advance reflected broad-based growth led by Growth Markets which, on a combined basis, grew about 50%. Each of the countries in our Growth Markets had strong double-digit growth, led by near triple-digit growth in Brazil and strong gains in China and India. The international BCS growth also reflected double-digit growth in Thailand, Venezuela, Turkey and Pakistan, as well as advances in Saudi Arabia, Spain and the U.K. These advances were partially offset by declines in Mexico, our largest international BCS market, and Argentina, primarily reflecting adverse economic conditions in these countries.

Reported international profit decreased $31 million or 16%. Ongoing operating profit increased $31 million or 16%. The fifty-third week in 1994 reduced the ongoing operating profit growth by approximately 2 points. The net acquisitions and start-up operations reduced profit by $8 million and $3 million, respectively, or 6 points on a combined basis. Profit growth benefited from the higher effective net prices on concentrate and packaged products and increased volume, primarily concentrate, of $52 million. These benefits were partially offset by net unfavorable currency translation impacts, principally due to the devaluation of the Mexican peso, and higher field operating costs and headquarters administrative expenses, reflecting normal increases and costs to support expansion. Profit growth was aided by an $8 million gain on the sale of a bottling plant in Greece.

Following is a discussion of international results by key geographic market. Ongoing profit growth reflected a significant net reduction in losses from the Growth Markets, led by increased profit in Brazil and reduced losses in India, the Czech Republic and Poland. Profit growth was also aided by increased volume and higher effective net prices in Saudi Arabia and the U.K. Our largest international sales markets are Canada, Japan and Spain, which have sizable company-owned bottling operations. Double-digit profit growth in Canada benefited from cost reduction initiatives, while strong double-digit profit growth in Japan was led by increased volume, favorable currency translation impacts and lower operating costs, partially offset by lower effective net prices. Profit in Spain was slightly lower, reflecting a higher level of promotional activity which was only partially offset by increased volume. These net gains were partially offset by significantly lower profits in Mexico and Argentina, primarily reflecting the adverse economic conditions in those countries. The ongoing operating profit margin was essentially unchanged at 6.3%.

As discussed on page 14, results in Mexico have been adversely impacted by economic difficulties resulting from the significant devaluation of the Mexican peso. Net sales in Mexico declined 37%, while operating profit declined $32 million or 73% to $12 million. Mexico represented approximately 5% and 23% of 1995 and 1994 international beverage segment ongoing operating profit, respectively.

1994 vs. 1993

Worldwide net sales increased $1.0 billion or 12%. The fifty-third week contributed approximately 1 point to the worldwide net sales growth. International start-up operations and net acquisitions, principally in the U.S., contributed $73 million and $161 million, respectively, or 3 points on a combined basis to worldwide sales growth.

Worldwide operating profit increased $108 million or 10%. The fifty-third week enhanced the profit growth by approximately 2 points. International start-up operations reduced operating profit by $19 million or 2 points, while net acquisitions had no impact on profit growth.

Sales in the U.S rose $623 million or 11%. The fifty-third week aided the sales growth by approximately 2 points. Net acquisitions contributed $158 million or 3 points to sales growth. Volume growth contributed $510 million, driven by CSD packaged products. This benefit, combined with a mix shift to the higher-priced alternative beverage packaged products and higher concentrate and fountain syrup pricing, was partially offset by lower net pricing to retailers and a mix shift to The Cube, our value-priced 24-pack. The lower net pricing reflected increased price discounts and promotional allowances for CSD, in response to private label competition, and Lipton brand tea. See Note 1 for discussion concerning classification of promotional price allowances.

BCS in the U.S. increased 6%, reflecting strong double-digit growth in the Mountain Dew brand and solid gains in Brand Pepsi. BCS growth also benefited by strong double-digit growth in Lipton brand tea and gains in the Diet Pepsi brand. These advances, combined with the national distribution of All Sport and Ocean Spray Lemonade in 1994 and gains in the Slice brands, were partially offset by significant declines in the Crystal Pepsi brands. Alternative beverages contributed 2 points to the BCS growth. BCS of fountain syrup grew at a slower rate than packaged products.

Profit in the U.S. increased $85 million or 9%. The fifty-third week enhanced the profit growth by approximately 1 point. Volume gains, driven by packaged products, contributed $305 million ($250 million excluding the impact of the fifty-third week) to profit growth. This benefit, combined with the higher concentrate and fountain syrup pricing, was partially offset by higher operating expenses, the lower net pricing to retailers, the mix shift to The Cube and increased product costs. Selling and distribution expenses grew at a faster rate than sales, driven by higher volume-driven labor costs. Advertising and marketing costs grew at a slower rate than sales. Administrative expenses declined modestly, reflecting savings from a 1994 consolidation of headquarters and field operations and a reduction in the scope of the 1992 restructuring actions, both discussed below. These benefits were largely offset by normal increases in administrative expenses. The increased product costs reflected the mix shift to the higher cost alternative beverages and higher ingredient prices, partially offset by lower packaging prices. Alternative beverages, driven by Lipton brand tea, aided the profit growth. The profit margin declined slightly to 15.6%.

In the third quarter of 1994, U.S. beverages reversed into income $24 million of a $115 million restructuring accrual established in 1992 and, in the third and fourth quarters, recorded additional charges totaling $22 million, primarily reflecting management's decision to further consolidate headquarters and field operations. The 1994 charges cover severance costs associated with employee terminations and relocation costs for employees who, in 1994, accepted offers to relocate. The 1992 charge arose from an organizational restructuring designed to improve customer focus by realigning resources consistent with Pepsi-Cola's "Right Side Up" operating philosophy, as well as a redesign of key administrative and business processes. The charge included provisions for costs associated with redeployed and displaced employees, the redesign of core processes and office closures.

The $24 million reversal reflects both refinements of the estimates originally used to establish the accrual, principally for costs associated with displaced employees, and management's decision to reduce the scope of the restructuring. The organizational restructuring was completed in 1992. The nationwide implementation of several of the anticipated administrative and business process redesigns has been completed, with the balance of the redesigns projected to be completed over the next three years.

The benefits of the restructuring activities, when fully implemented, were originally projected to be approximately $105 million annually, based on reduced employee and facility costs. The current projection of annual benefits from these sources has decreased to approximately $40 million reflecting, in part, the reduced scope of the restructuring. While difficult to measure, in 1994 U.S. beverages estimated other sources of benefits from the restructuring of approximately $90 million annually, based on centralization of purchasing activities and incremental volume and pricing from improvements in administrative and business processes. These additional sources of benefits, although identified when the 1992 restructuring accrual was established, were not included in the projected annual benefits due to significant uncertainties and difficulties in quantifying the amounts, if any, of such benefits. Due to delays in implementing some of the restructuring actions, full realization of the expected benefits also has been delayed. Benefits in 1994 were offset by incremental costs associated with the continued development and implementation of the restructuring actions. This offset is expected to continue into 1995. Net benefits are expected to begin in 1996 and to increase annually until fully realized in 1998. All benefits derived from the restructuring actions will be reinvested in the business to strengthen our competitive position.

International sales rose $426 million or 16%. The fifty-third week enhanced the sales growth by approximately 1 point. This growth reflected higher volume of $300 million, the start-up of company-owned bottling and distribution operations, principally in Eastern Europe, and the first year of sales of Stolichnaya vodka under the 1994 appointment of an affiliate of Grand Metropolitan as the exclusive U.S. and Canadian distributor. Higher concentrate pricing was offset by an unfavorable currency translation impact and lower net pricing on packaged products. The unfavorable currency translation impact reflected a weaker Canadian dollar, Spanish peseta and Mexican peso, partially offset by a stronger Japanese yen.

International case sales increased 9%, reflecting strong double-digit growth in Asia, led by China and India, and solid advances in Latin America, as growth

in Mexico more than offset declines in Venezuela. Latin America and Mexico represent our largest international BCS region and country, respectively. Double-digit advances in Eastern Europe and the Middle East, combined with single-digit growth in Western Europe and Canada, were partially offset by declines in Africa. Pepsi Max, a new low-calorie cola, aided BCS growth.

International profit increased $23 million or 13%. The fifty-third week enhanced the profit growth by approximately 2 points. Net acquisitions reduced profit by $9 million or 5 points. The increased profit reflected volume growth of $75 million, led by concentrate shipments. This benefit, combined with a decline in advertising and marketing expenses not attributed to volume growth, was partially offset by increased field and headquarters administrative expenses, start-up losses, principally in Eastern Europe, and an unfavorable currency translation impact, primarily from the Mexican peso and the Canadian dollar. The increased administrative expenses reflected costs to support expansion in Growth Markets. The higher concentrate pricing was partially offset by a decline in finished product sales to franchised bottlers, principally in Japan, and the lower net pricing on packaged products. Increased profit from the first year of sales of Stolichnaya, under the 1994 appointment of an affiliate of Grand Metropolitan as the exclusive U.S. and Canadian distributor, aided profit growth. The new Pepsi Max product significantly contributed to profit growth. Profit increased in Latin America, led by Mexico, and in Western Europe, reflecting significantly reduced losses in Germany. Profit also grew in Asia, reflecting advances in Japan. The profit growth was restrained by start-up losses in Eastern Europe and declines in Canada, reflecting private label competition. The profit margin remained relatively unchanged at 6.2%.

The 1992 restructuring actions to streamline the acquired Spanish franchised bottling operation were substantially completed in 1994. These actions have resulted in total savings approximating $15 million in 1994, with total annual savings expected to grow to about $20 million in 1995, consistent with our original projection. These savings will continue to be reinvested in our businesses to strengthen our competitive position.

The significant devaluation of the Mexican peso in late 1994 and early 1995 did not materially impact 1994 international beverage operating profit. However, because Mexico, our largest profit country, represented approximately 23% of international beverage operating profit in 1994, the devaluation and its related effects were expected to have an unfavorable impact on 1995 operating profit. The operations in Mexico had begun to take actions to increase volume, enhance net pricing and reduce costs, including evaluating alternative sourcing of raw materials. Nonetheless, significant uncertainties remained in Mexico and, as a result, it was not possible to quantify the impact. International beverages had also begun to take actions in several other countries in 1995 to help mitigate the impact.

Snack Foods

($ in millions)	1995	1994	1993	% Growth Rates 1995	% Growth Rates 1994
Net Sales					
U.S.	**$5,495**	$5,011	$4,365	**10**	15
International	**3,050**	3,253	2,662	**(6)**	22
	$8,545	$8,264	$7,027	**3**	18
Operating Profit					
U.S.	**$1,132**	$1,025	$ 901	**10**	14
International	**300**	352	289	**(15)**	22
	$1,432	$1,377	$1,190	**4**	16

[Note: Net sales and operating profit comparisons within the following discussions include the impact of the fifty-third week in 1994 (see Note 19), while pound and kilo growth have been adjusted to exclude its impact.]

1995 vs. 1994

Worldwide net sales rose $281 million or 3%. Worldwide operating profit increased $55 million or 4%. The fifty-third week in 1994 reduced both worldwide net sales and operating profit growth by approximately 2 points.

Sales in the U.S. grew $484 million or 10%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales increase reflected volume growth of $411 million and increased pricing across all major brands. The volume growth reflected gains in almost all major brands, led by our low-fat and no-fat snacks, which accounted for over 45% of the total sales growth. Volume growth was further aided by increased promotional price allowances and merchandising programs to retailers, which are reported as marketing expenses and therefore do not reduce reported sales. See Note 1 for further discussion concerning classification of promotional allowances.

Pound volume in the U.S. advanced 11%, reflecting exceptional performance from the low-fat and no-fat categories. These categories contributed over 45% of the total pound growth, driven by Rold Gold brand pretzels, Baked Tostitos brand tortilla chips, Tostitos brand salsa and Ruffles Light and Baked Lay's brand potato crisps. Doritos brand tortilla chips, driven by new flavor extensions and packaging, had solid single-digit pound growth. Lay's brand potato chips and other Ruffles brand products grew single-digits, benefiting from new flavor extensions like Hidden Valley Ranch Wavy Lay's brand potato chips, Lay's and Ruffles KC Masterpiece Barbecue Flavor brand potato chips, French Onion Flavored Ruffles and Lay's Salsa & Cheese Flavored brand potato chips. Chee•tos brand cheese flavored snacks, fueled by fried Chee•tos, had single-digit growth, while Fritos brand corn chips declined slightly reflecting lower promotional spending.

Profit in the U.S. grew $107 million or 10%. The fifty-third week in 1994 reduced the profit growth by approximately 3 points. The low-fat and no-fat categories contributed about 40% of the total profit growth. The total profit increase reflected strong volume growth, which contributed $193 million ($244 million excluding the impact of the fifty-third week) and higher pricing that exceeded increased promotional price allowances and merchandising support. This growth was partially offset by increased operating costs, which were driven by higher selling, distribution and administrative expenses and increased investment in brand marketing to support and maintain strong volume momentum. The higher administrative expenses reflected investment spending to maintain volume growth and a competitive advantage, including new manufacturing and delivery systems, feasibility studies related to a joint venture arrangement with Sara Lee Bakery and a reorganization of field operations to improve customer service. The profit growth was also hampered by higher manufacturing costs, reflecting increased capacity costs and an unfavorable sales mix shift to lower-margin value-oriented packages. Increased carton and packaging prices were partially offset by favorable potato and oil prices. Although difficult to forecast, 1996 potato and oil prices are expected to remain about even with 1995, while prices of corn and potato flakes, used in Baked Lay's, are expected to increase. However, due to extreme weather conditions in recent years, potato prices have been less predictable. Carton and packaging prices in 1996 are expected to remain even with 1995. The profit margin remained about the same at 20.6%.

As discussed on page 14, 1995 results in Mexico have been adversely impacted by economic difficulties resulting from the significant devaluation of the Mexican peso. This effect was particularly dramatic on international snack food results as Mexico represented approximately 64% of international snack food 1994 operating profit. Net sales in Mexico declined 39% in 1995, while operating profit declined $120 million or 53% to $106 million. As a result, Mexico represented only 35% of 1995 international snack food profit. Since the change in results of Mexico had such a distortive effect on international snack food results, net sales and operating profit discussions that follow

exclude the effects of Mexico where noted. However, Sabritas and Gamesa, our operations in Mexico, are discussed separately below.

International sales decreased $203 million or 6%. Sweet snacks (primarily candy and cookies) accounted for approximately 25% of international snack food sales in 1995, compared to 30% in 1994. Excluding Mexico, international sales grew more than 25%; the fifty-third week in 1994 reduced the sales growth by approximately 2 points. This growth reflected increased volumes of $288 million, led by Brazil and the U.K. The sales growth also benefited from a favorable mix shift to higher-priced packages and products and acquisitions, which contributed $43 million.

International kilo growth is reported on a systemwide basis, which includes both consolidated businesses and joint ventures operating for at least one year. Salty snack kilos rose 9%, reflecting strong double-digit volume growth in Brazil, due to a more stable economy; the U.K., the Netherlands and Spain achieved double-digit growth fueled, in part, by in-bag promotions. These advances were partially offset by double-digit declines at Sabritas. Sweet snack kilos grew 12%, reflecting double-digit advances at Gamesa and in France, and single-digit advances at the Alegro sweet snack division (formerly Sonrics) of Sabritas.

International operating profit decreased $52 million or 15%. The fifty-third week in 1994 reduced the operating profit growth by approximately 1 point. Excluding Mexico, international operating profit increased $68 million or 54%; the fifty-third week in 1994 reduced the profit growth by approximately 1 point. This growth reflected the favorable mix shift to higher-priced packages and products and increased volumes of $48 million, partially offset by higher operating costs and increased administrative expenses. The increased operating costs reflected increased manufacturing costs due to higher commodity and packaging prices. The increased administrative costs reflected broad-based investment spending on regional business development initiatives and increased headquarters expenses. Including Mexico, the profit margin decreased 1 point to 9.8%.

The following discussions of profitability by key business exclude any allocation for division or corporate overhead.

Operating profit declined over 50% at Sabritas, reflecting an increase in operating costs, an unfavorable currency translation impact and lower volumes, partially offset by higher pricing. The increased operating costs reflected significantly higher manufacturing costs due to higher ingredient prices and wage rates, as well as increased selling and distribution expenses. Lower-margin sweet snack kilo volume from the Alegro division increased 7% despite lapping of a successful 1994 promotion. Although Sabritas maintained its high market share, higher-margin salty snack kilos declined almost 20% due, in part, to reduced demand, higher pricing and lapping strong volume gains in 1994 as a result of a successful in-bag promotion.

Gamesa's profit more than doubled, on a small base, despite the effects of the economic difficulties resulting from the devaluation of the Mexican peso, as higher pricing and increased volumes more than offset higher operating costs, the unfavorable currency translation impact and higher administrative costs. The increased operating costs primarily reflected higher manufacturing costs due to higher ingredient prices and wage rates, increased selling and distribution expenses, and higher advertising expenses. Sweet snack kilos grew 15%, driven by route expansion and successful promotions.

Walkers' profit grew 37% driven by increased volume, reflecting gains in the Walkers crisps brand as a result of successful in-bag promotions, and Doritos brand tortilla chips. Higher manufacturing costs, reflecting higher potato and packaging prices, were more than offset by favorable selling and distribution, administrative and advertising and marketing expenses. Increased sales of Doritos, introduced late in the second quarter of 1994, represented approximately 25% of the strong kilo growth in the U.K. Doritos generated a slight profit compared to a loss last year.

Brazil's profit more than doubled, on a small base, as increased volumes of core brands, reduced selling and distribution expenses and a favorable mix shift to higher-priced packages were partially offset by higher manufacturing costs, primarily potato prices. Brazil is operating at maximum capacity and therefore, investments are currently being made to expand production capacity to meet the strong consumer demand, due in part to the substantial improvement in the country's economy. These investments are expected to be completed early in the second quarter of 1996.

1994 vs. 1993

Worldwide net sales rose $1.2 billion or 18%. The fifty-third week contributed approximately 2 points to the worldwide net sales growth. Worldwide operating profits increased $187 million or 16%. The worldwide operating profit growth benefited from the fifty-third week by approximately 2 points.

Sales in the U.S. grew $646 million or 15%. The fifty-third week contributed about 2 points to the sales growth. The increase in sales reflected volume growth of $660 million. Volume gains reflected growth in most major brands and line extensions of existing products. Sales growth was further aided by increased promotional price allowances and marketing programs to retailers, which are reported as marketing expenses and therefore do not reduce reported sales. Higher gross pricing was offset by a sales mix shift to larger, value-oriented packages and products with lower gross prices.

Total U.S. pound volume advanced 13%. This performance was led by strong double-digit growth in Lay's brand potato chips, reflecting the successful promotion of Wavy Lay's brand potato chips and growth of Lay's KC Masterpiece Barbecue Flavor brand potato chips, Rold Gold and Rold Gold Fat Free Thins brand pretzels and Tostitos brand tortilla chips, driven by Restaurant Style Tostitos brand and the expanded distribution of Baked Tostitos brand. Doritos brand tortilla chips had solid single-digit volume growth while Fritos brand corn chips and Chee•tos brand cheese flavored snacks reflected low double-digit growth. Ruffles brand potato chips showed modest growth.

Profit in the U.S. grew $124 million or 14%. The fifty-third week contributed about 3 points to the profit growth. This performance reflected strong volume growth, which contributed $340 million ($289 million excluding the impact of the fifty-third week). This growth was partially offset by the impact of increased operating and manufacturing costs and an unfavorable sales mix shift to lower-margin packages and products. Increased operating costs were driven by higher selling, distribution and new system costs in addition to increased investment in marketing costs to maintain strong momentum in 1995. Increased capacity costs were partially offset by manufacturing efficiencies. Higher vegetable oil prices were substantially offset by lower packaging and potato prices. Increased promotional price allowances and merchandising support largely offset higher pricing on certain brands. The profit margin remained relatively unchanged at 20.5%.

Though difficult to forecast, there were no material changes expected in potato costs for 1995. However, potato prices have been less predictable in recent years due to weather conditions. Vegetable oil prices were expected to decline slightly from the high 1994 levels, while the cost of packaging was expected to increase.

International sales rose $591 million or 22%. The fifty-third week contributed approximately 1 point to the sales growth. Sweet snacks (primarily candy and cookies) accounted for approximately 30% of international snack food sales in both 1994 and 1993. Acquisitions contributed $67 million or 2 points to sales growth. The balance of the sales growth was driven by higher volume, which contributed $590 million, led by successful promotions by the Sabritas salty snack and sweet snack business in Mexico. A favorable brand mix shift to higher-priced products, primarily in Latin America and the U.K., and higher pricing were largely offset by the unfavorable currency translation impact of a stronger U.S. dollar, principally against the Mexican peso.

International systemwide salty snack kilos rose 16%, led by strong double-digit growth at Sabritas, in Spain and Brazil and solid gains in the U.K. Systemwide sweet snack kilos also grew 16%, reflecting double-digit advances at Gamesa and Sabritas and gains in Egypt and Poland.

International profit increased $63 million or 22%. The fifty-third week contributed about 1 point to the profit growth. Higher volume contributed $95 million ($87 million excluding the impact of the fifty-third week) to international profit growth, led by Sabritas. The combined impact of the favorable product and package mix shifts, primarily in the U.K. and Latin America, and modestly higher pricing were more than offset by higher direct and administrative costs and an unfavorable currency translation impact from the Mexican peso. Higher direct costs resulted primarily from investment initiatives to build brand equity and enhance distribution channels in Mexico. Profit growth was also dampened by the lapping of last year's noncash credit of $6 million resulting from the decision to retain a small snack chip business in Japan previously held for sale. The profit margin remained relatively unchanged at 10.8%.

The international restructuring charge in 1992 related primarily to actions to consolidate and streamline the Walkers business in the U.K. that were substantially completed during 1994. These actions were estimated to result in annual savings of about $32 million, which continue to be reinvested in the business to strengthen our competitive position.

Following is a discussion of the results of our key international businesses.

Strong double-digit profit growth at Sabritas was driven by higher salty and sweet snack volumes. This benefit, combined with a favorable product mix shift to higher-margin snacks and lower manufacturing overhead and administrative costs, more than offset increased potato costs, higher promotional spending and an unfavorable currency translation impact.

Walkers' profit advanced at a strong double-digit rate, driven by a favorable product mix shift reflecting increased sales of higher-margin branded products and the elimination of most lower-margin private label products, increased volumes, lower raw material and packaging costs and lower manufacturing expenses resulting from the 1992 restructuring actions. These benefits offset start-up costs related to the launch of Doritos brand tortilla chips which exceeded incremental profit generated.

Gamesa posted strong profit growth on a relatively small base, reflecting a favorable package mix shift to higher-margin single-serve products and lower manufacturing overhead and administrative costs resulting from cost reduction initiatives. These benefits were partially offset by higher product costs, selling and distribution costs associated with the expansion of a direct delivery system and an unfavorable currency translation impact.

The significant devaluation of the Mexican peso in late 1994 and early 1995 did not materially impact 1994 international snack food operating profit. However, because Sabritas and Gamesa combined represented approximately 64% of international snack food operating profit in 1994, the devaluation and its related effects were expected to have an unfavorable impact on 1995 operating profit. Sabritas and Gamesa had begun to increase pricing and reduce costs, including evaluating alternative sourcing of raw materials. Nonetheless, significant uncertainties remained in Mexico and, as a result, it was not possible to quantify the impact. International snack foods had also begun to take actions in several of its other countries in 1995 to help mitigate the impact.

Restaurants

				% Growth Rates	
($ in millions)	**1995**	1994	1993	**1995**	1994
Net Sales					
U.S.	**$ 9,202**	$ 8,694	$8,026	**6**	8
International	**2,126**	1,827	1,330	**16**	37
	$11,328	$10,521	$9,356	**8**	12
Operating Profit					
Reported					
U.S.	**$ 451**	$ 659	$ 685	**(32)**	(4)
International	**(21)**	71	93	**NM**	(24)
	$ 430	$ 730	$ 778	**(41)**	(6)
*Ongoing**					
U.S.	**$ 753**	$ 659	$ 685	**14**	(4)
International	**114**	71	93	**61**	(24)
	$ 867	$ 730	$ 778	**19**	(6)

** 1995 excluded the initial, noncash charge upon adoption of SFAS 121. See Notes 2 and 19.*

NM = Not Meaningful.

[Note: Unless otherwise noted, operating profit comparisons within the 1995 vs. 1994 discussion are based on ongoing operating profit. Net sales and operating profit comparisons within the following discussions include the impact of the fifty-third week in 1994 (see Note 19), while same store sales growth has been adjusted to exclude its impact. For purposes of this discussion, net sales by PFS, PepsiCo's restaurant distribution operation, to the franchisee and licensee operations of each restaurant chain and the related estimated operating profit have been allocated to each restaurant chain.]

1995 vs. 1994

Worldwide net sales increased $807 million or 8%. Sales in the U.S. increased $508 million or 6%, while international sales increased $299 million or 16%. The fifty-third week in 1994 reduced the worldwide, U.S. and international net sales growth by approximately 2 points each.

Reported worldwide operating profit declined $300 million or 41%. Ongoing worldwide operating profit increased $137 million or 19%; U.S. increased $94 million or 14% and international increased $43 million or 61%. The fifty-third week in 1994 reduced the ongoing worldwide operating profit growth by approximately 4 points. U.S. and international profit growth were reduced by 4 and 7 points, respectively.

As discussed in Notes 2 and 19, PepsiCo recorded the initial, noncash charge upon adoption of SFAS 121 in 1995, which had a significant effect on restaurant results. Historically, PepsiCo had evaluated and measured impairment on a total division basis. As a result of adopting SFAS 121, PepsiCo now evaluates each individual restaurant for impairment. This change resulted in a charge of $437 million to reduce the carrying amount of 1,247 or 10% of PepsiCo's company-operated restaurants. The charge represented approximately 7% of the total carrying amount of restaurant long-lived assets. The reduced carrying amount of restaurant assets is expected to reduce 1996 depreciation and amortization expense by approximately $45 million. Also, because PepsiCo now evaluates each restaurant for impairment, future charges, though not of the magnitude of the initial charge recorded in 1995, are reasonably possible although not currently estimable. These charges will generally arise as estimates used in the evaluation and measurement of impairment upon adoption of SFAS 121 are refined based upon new information or as a result of future events or changes in circumstances that cause other restaurants to be impaired. Also, any future expenditures for impaired stores that would normally be capitalized will have to be immediately evaluated for

recoverability. The initial impact of adopting SFAS 121, as well as its ongoing application, will also generally result in lower closure costs or increased gains for impaired restaurants that are closed or sold, respectively.

As disclosed in our 1994 Annual Report and updated in our 1995 reports on Form 10-Q, we have evaluated and begun to execute actions in 1995 in an effort to improve total restaurant operating results and returns on our restaurant investments. Our overall strategy is to leverage the collective strength of our three restaurant concepts by strengthening our brand leadership, leveraging our business systems and restaurant development activities, and achieving operational excellence.

Brand leadership contemplates, in part, the need to be innovative by providing new products and programs to respond to consumer needs while maintaining a value orientation. This year, for example, we have introduced several new products such as Pizza Hut's Stuffed Crust Pizza and Buffalo Wings, KFC's Tumble Marinated Original Recipe product, Colonel's Crispy Strips and Chunky Chicken Pot Pies and Taco Bell's Double Decker Taco, Texas Taco and new line of Sizzlin' Bacon products. In addition, we have also offered new programs to respond to consumer needs such as "You'd Be Crazy to Cook" promotion, delivery service and the Mega Meal value offering at KFC and Extreme Value Meals, Kids' meals and the low-fat Border Lights menu at Taco Bell. We believe our ability to develop and bring to market new products that attract and maintain our customer base is an important factor for continued profit growth in the restaurant segment.

With respect to leveraging our business systems, consolidation of international headquarters administration of our three concepts was completed this year and consolidation of international regional and country administration is well under way. The consolidation of administrative operations in the U.S., such as payroll and accounts payable, has begun and is expected to be completed over the next few years. Also, consolidation of restaurant procurement on a worldwide basis is substantially completed with significant annual savings anticipated beginning in 1996. As we move forward, our concepts will share restaurant facilities where appropriate. For example, early indications are that our combined Taco Bell – KFC units in the U.S. are performing well, as the Taco Bell lunch business complements the strong KFC dinner business. In fact, the current plan calls for us to approximately triple the current number of combined U.S. units to over 300 units during 1996.

In addition, we plan to continue to selectively use franchisees and licensees in certain markets where their expertise can be leveraged to improve the overall operational excellence of our concepts systemwide. In 1995, we began to refranchise (sell company-operated restaurants to franchisees) and license company-operated restaurants and more aggressively close stores that do not meet our performance expectations. These unit-related actions aided worldwide restaurant operating profit growth by $61 million, reflecting a net gain of $51 million in 1995 ($88 million of refranchising gains offset by $37 million of costs of closing other restaurants) as compared to $10 million of store closure costs in 1994. Included in the $37 million are costs associated with 185 stores scheduled to be closed in 1996. Operating profit in 1996 is not expected to be significantly affected by the estimated net impact of the absence of profits attributed to those units sold in 1995 and those units currently anticipated to be sold in 1996 compared to the additional franchise royalty revenues related to those units and the losses avoided for restaurants closed in 1995 and scheduled to be closed in 1996. Though difficult to forecast, management anticipates a favorable impact from these kinds of unit-related actions over the next few years as we continue the implementation of our strategies to improve restaurant returns.

We expect that total system units will, on average, continue to expand at 1995's annual rate of approximately 6%, though only about 1% of the net growth will be company-operated. As a result, although our overall ownership percentage of total system units declined by about 2 1/2 points in 1995, we continue to anticipate that our percentage ownership will decline on average by 1 to 2 points annually over the next 3 to 5 years, driven by declines in the U.S.

1995 Restaurant Unit Activity

	Company-Operated	Joint Venture	Franchised	Licensed	Total
Worldwide Restaurants					
Beginning of Year	12,742	933	11,364	1,830	26,869
New Builds & Acquisitions	678	96	553	1,016	2,343
Refranchising & Licensing	(308)	(6)	269	45	–
Closures	(293)	(19)	(161)	(143)	(616)
End of Year	12,819*	1,004	12,025	2,748	28,596
U.S. Restaurants**					
Beginning of Year	10,520	70	7,238	1,693	19,521
New Builds & Acquisitions	416	11	217	951	1,595
Refranchising & Licensing	(302)	–	257	45	–
Closures	(269)	(3)	(113)	(138)	(523)
End of Year	10,365*	78	7,599	2,551	20,593

* *As of year-end 1995, closure costs have been recorded for 185 of these units (141 in the U.S.), which are expected to close in 1996.*
** *The U.S. joint venture units represent California Pizza Kitchen.*

[Note: A summary of the 1995 restaurant unit activity for each U.S. concept and for international restaurant operations is included in each of the following discussions.]

Restaurants generated cash flows of nearly $600 million in 1995 compared to marginally positive cash flows in 1994. This primarily reflected reduced capital spending and acquisitions of $322 million and $78 million, respectively, and proceeds of $165 million from our refranchising efforts. We currently estimate that our level of capital spending in 1996 will approximate the $750 million invested in 1995; however, we expect more of the spending to be used for refurbishing our existing restaurants and less on new store development.

With respect to operational excellence, we have made investments in a number of initiatives during the past year targeted at consistently providing our customers with high quality products, courteous and timely service and clean and attractive restaurants. We believe this is an important factor in maintaining our current customer base as well as attracting new customers. We have implemented customer satisfaction measures to evaluate the success of these initiatives.

1994 vs. 1993

Worldwide net sales increased $1.2 billion or 12%. The fifty-third week contributed approximately 1 point to the sales growth, with U.S. and international operations benefiting by about 1 point and 2 points, respectively. Sales in the U.S. increased $668 million or 8% and international sales rose $497 million or 37%.

Worldwide operating profit declined $48 million or 6%. The fifty-third week mitigated the profit decline by approximately 3 points, with U.S. and international operations benefiting at the same rate. Profit in the U.S. declined $26 million or 4% and international profit fell $22 million or 24%, which included a $7 million charge to consolidate the U.S. headquarters for the three international restaurant concepts into one.

The significant devaluation of the Mexican peso in late 1994 and early 1995

did not materially impact 1994 international restaurant operating profit. Results from Mexico constituted an immaterial portion of international restaurant profit. However, the devaluation and its related effects were expected to have an unfavorable impact on 1995 results. The operations in Mexico had begun increasing pricing and reducing costs, including evaluating alternative sourcing of raw materials. In addition, further expansion of company-operated units was temporarily halted pending stabilization of the economy. Nonetheless, significant uncertainties remained in Mexico and, as a result, it was not possible to quantify the impact.

Late in 1994, Roger Enrico was named Chairman, PepsiCo Worldwide Restaurants. He began to evaluate several options to improve their operating results and returns on our total restaurant investments. Examples of options considered to improve investment returns included a reduced company share of future new restaurant development and sale of some existing company restaurants to franchisees. The cash generated from these options would most likely be reinvested in our nonrestaurant businesses or used to repurchase PepsiCo capital stock. We expected to begin making decisions on these and other options during 1995 as we continued to refine our restaurant operating strategies.

Pizza Hut – U.S.

The tables of operating results and unit activity presented below include Pizza Hut as well as D'Angelo Sandwich Shops (D'Angelo) and East Side Mario's concepts, which are managed by Pizza Hut. As D'Angelo is generally fully integrated within Pizza Hut units, the elements in the year-over-year discussion of net sales and operating profit that follows relate to Pizza Hut as well as D'Angelo and excludes East Side Mario's, unless otherwise indicated.

				% Growth Rates	
($ in millions)	**1995**	1994	1993	**1995**	1994
Net Sales	**$3,977**	$3,712	$3,595	**7**	3
Operating Profit					
Reported	**$ 308**	$ 285	$ 338	**8**	(16)
*Ongoing**	**$ 376**	$ 285	$ 338	**32**	(16)

** 1995 excluded the initial, noncash charge upon adoption of SFAS 121. See Notes 2 and 19.*

1995 Restaurant Unit Activity

	Company-Operated	Franchised	Licensed	Total
Beginning of Year	5,249	2,708	661	8,618
New Builds & Acquisitions	213	89	257	559
Refranchising & Licensing	(88)	88	–	–
Closures	(173)	(66)	(55)	(294)
End of Year	5,201*	2,819	863	8,883

** As of year-end 1995, closure costs have been recorded for 104 of these units, which are expected to be closed in 1996.*

1995 vs. 1994

Net sales increased $265 million or 7%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales growth reflected $148 million from additional units (units constructed and acquired, principally from franchisees, net of units closed or sold, principally to franchisees) and growth in same store sales for company-operated units of 4%. The improved same store sales performance was driven by Stuffed Crust Pizza, introduced nationally early in the second quarter, and reflected strong growth in carryout and delivery, and modest growth in dine-in. Same store sales increases were also fueled by a higher average guest check resulting from less promotional pricing than in 1994 and the early 1995 national introduction of Buffalo Wings.

Reported operating profit grew $23 million or 8%. Ongoing operating profit increased $91 million or 32%, in part, reflecting a weak profit performance in 1994 combined with the exceptional performance of Stuffed Crust Pizza. The fifty-third week in 1994 reduced the profit growth by approximately 3 points. The profit growth reflected additional units that contributed $31 million, a net gain of $24 million in 1995 ($42 million of refranchising gains offset by $18 million of costs of closing other restaurants) as compared to $4 million of store closure costs in 1994, lower store operating costs and increased franchise royalty revenues. The lower store operating costs primarily reflected increased labor productivity, favorable food prices, led by lower cheese and meat prices, and reduced advertising expenses, partially offset by increased spending for our customer satisfaction program. The profit growth was depressed by a net $17 million charge in 1995 composed of a $20 million charge recorded in the second quarter for the relocation of certain functions of Pizza Hut's U.S. headquarters from Wichita to Dallas, partially offset by net favorable adjustments of $3 million primarily as a result of better than expected costs. The ongoing profit margin increased almost 2 points to 9.5%.

1994 vs. 1993

Net sales increased $117 million or 3%. The fifty-third week contributed approximately 1 point to the sales growth. The increased sales were driven by additional units that contributed $271 million, including $80 million from the acquisition of D'Angelo late in 1993. This benefit was partially offset by lower volumes of $105 million, primarily due to lapping the successful national roll-out of Bigfoot Pizza in 1993, and lower net pricing.

Same store sales for company-operated units declined 6%, though volume decreased at a slightly slower rate. The decline was primarily in the delivery and carryout channels, reflecting the lapping of the national roll-out of Bigfoot Pizza in 1993.

Operating profit decreased $53 million or 16%. The fifty-third week mitigated the profit decline by approximately 2 points. The profit decline reflected lower volumes of $49 million ($60 million excluding the impact of the fifty-third week), lower net pricing and increased overhead costs, due in part to increased store closure costs, partially offset by additional units that contributed $17 million. Store operating costs were essentially unchanged primarily reflecting lower advertising and favorable food costs, as slightly higher cheese prices were more than offset by favorable meat prices, offset by increased depreciation attributable to new equipment related to Bigfoot Pizza. Though difficult to forecast, the prices of these key ingredients were expected to decrease in 1995. The profit decline was also mitigated by a favorable impact of $14 million from extending depreciable lives on certain U.S. delivery assets and the absence of last year's start-up costs associated with Bigfoot Pizza. The profit margin declined almost 2 points to 7.7%.

Taco Bell – U.S.

The tables of operating results and unit activity presented below include Taco Bell as well as the Hot 'n Now (HNN) and Chevys concepts, which are managed by Taco Bell. The elements in the year-over-year discussion of net sales and operating profit that follows do not include HNN and Chevys, unless otherwise indicated.

				% Growth Rates	
($ in millions)	**1995**	1994	1993	**1995**	1994
Net Sales	**$3,503**	$3,340	$2,855	**5**	17
Operating Profit					
Reported	**$ 105**	$ 273	$ 256	**(62)**	7
*Ongoing**	**$ 274**	$ 273	$ 256	**–**	7

** 1995 excluded the initial, noncash charge upon adoption of SFAS 121. See Notes 2 and 19.*

1995 Restaurant Unit Activity

	Company-Operated	Franchised	Licensed	Total
Beginning of Year	3,232	1,523	929	5,684
New Builds & Acquisitions	190	98	668	956
Refranchising & Licensing	(214)	169	45	–
Closures	(75)	(11)	(64)	(150)
End of Year	3,133	1,779	1,578	6,490

1995 vs. 1994

Net sales increased $163 million or 5%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales growth was led by additional units which contributed $228 million. A decline in restaurant volume of $143 million, reflecting a 4% decline in same store sales for company-operated units, was partially offset by increased PFS sales to franchisees of $50 million. A decline in sales at HNN, primarily reflecting the absence of sales associated with company-operated units licensed in 1995 (see below for additional discussion), was substantially offset by increased sales at Chevys, primarily reflecting additional units.

Reported operating profit declined $168 million or 62%. Ongoing operating profit increased $1 million. Absent the fifty-third week in 1994, ongoing operating profit for 1995 would have increased 4 points. The slight increase in profit reflected a net gain of $40 million in 1995 ($42 million of refranchising gains offset by $2 million of costs of closing other restaurants). This net gain was offset by $12 million in 1995 for the write-off of costs associated with sites that will not be developed (undeveloped sites), compared to $6 million of undeveloped sites costs in 1994. Profit growth was also aided by additional units which contributed $23 million and lower store operating costs. The decrease in store operating costs primarily reflected favorable food costs, as lower meat and bean prices were partially offset by higher lettuce prices experienced in the second quarter. Although difficult to forecast, food prices for the full year 1996 are expected to be favorable as compared to 1995, led by lower meat prices. Profit growth also reflected increased franchise royalty revenues, in part reflecting initial franchise fees related to refranchised restaurants, and increased license fees. These benefits were substantially offset by net volume declines of $44 million ($34 million excluding the impact of the fifty-third week) and a net unfavorable product mix shift to lower-margin products. The net volume declines resulted from the reduced same store sales partially offset by the lower-margin PFS increases. Operating profit was also adversely impacted by roll-out costs incurred during the first half of the year for the low-fat Border Lights products. Increased field training costs were offset by reduced headquarters administrative expenses.

HNN and Chevys incurred $103 million of the initial charge upon adoption of SFAS 121, with HNN responsible for almost all of the charge. Excluding the initial charge, operating losses at Chevys increased, primarily reflecting costs associated with a curtailment of company-operated restaurant development activities. Excluding the initial charge, HNN's losses declined, primarily reflecting the absence of costs associated with undeveloped sites in 1994. As disclosed in our 1994 Annual Report and updated in our 1995 reports on Form 10-Q, during 1995, Taco Bell initiated a plan to license or franchise all of its HNN units in an effort to eliminate HNN's operating losses over time. Through the end of the third quarter, almost 75% of HNN's 200 units had been licensed or franchised. Late in the fourth quarter, certain of the HNN licensees returned 42 of their units to Taco Bell as a result of poor operating results. Almost all of these units were closed, de-identified as HNN units and are held for sale. Subsequent to year-end, our largest licensee closed and returned its 23 remaining units to Taco Bell. In addition, there are some indications that the current operating performance of the majority of the remaining licensed units is also below expectations. It is reasonably possible that some or all of these underperforming units may be returned during 1996 by the licensees. Any costs associated with units returned in 1996 are expected to be immaterial to Taco Bell's results. Taco Bell will continue its efforts to license or sell the remaining company-operated HNN units and undeveloped sites.

The Taco Bell ongoing profit margin declined nearly one-half point to 7.8%.

1994 vs. 1993

Net sales increased $485 million or 17%. The fifty-third week benefited the sales growth by approximately 2 points. The sales growth was led by additional units which contributed $267 million and volume gains that provided $121 million, half of which was the result of PFS food and paper sales to additional franchisees. The sales growth also reflected $84 million due to the acquisition of Chevys in the third quarter of 1993 and new Chevys units. Same store sales for company-operated units grew 2%, though volume grew at a slower rate.

Operating profit rose $17 million or 7%. The fifty-third week enhanced the profit growth by approximately 4 points. The profit growth reflected lower food costs, additional units which contributed $25 million, volume gains of $25 million ($15 million excluding the impact of the fifty-third week), higher soft drink prices and increased franchise royalty revenues. These benefits were partially offset by higher store operating costs, driven by increased labor costs, an unfavorable mix shift to lower-margin products and higher headquarters administrative expenses. Profit growth was restrained by increased losses posted by HNN. Taco Bell planned to transition HNN during 1995 from primarily a company-operated to a licensee/franchisee-operated business. This was expected to significantly reduce HNN's operating losses in 1995. The profit margin fell almost 1 point to 8.2%.

KFC – U.S.

($ in millions)	1995	1994	1993	% Growth Rates 1995	% Growth Rates 1994
Net Sales	**$1,722**	$1,642	$1,576	**5**	4
Operating Profit					
Reported	**$ 38**	$ 101	$ 91	**(62)**	11
*Ongoing**	**$ 103**	$ 101	$ 91	**2**	11

** 1995 excluded the initial, noncash charge upon adoption of SFAS 121. See Notes 2 and 19.*

1995 Restaurant Unit Activity

	Company-Operated	Franchised	Licensed	Total
Beginning of Year	2,039	3,007	103	5,149
New Builds & Acquisitions	13	30	26	69
Refranchising & Licensing	–	–	–	–
Closures	(21)	(36)	(19)	(76)
End of Year	2,031*	3,001	110	5,142

** As of year-end 1995, closure costs have been recorded for 31 of these units, which are expected to be closed in 1996.*

1995 vs. 1994

Net sales rose $80 million or 5%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The increased sales were driven by volume gains of $61 million and higher effective net pricing. The volume gains benefited from new product offerings during the year such as Colonel's Crispy Strips, Chunky Chicken Pot Pies and a Tumble Marinated Original Recipe product as well as the national introduction of the value-oriented Mega Meal late in 1994, which was complemented by the 1995 high-end "You'd Be Crazy To Cook" offerings. Same store sales for company-operated units advanced 7%, primarily reflecting strong volume growth.

Reported operating profit decreased $63 million or 62%. Ongoing operating profit increased $2 million or 2%. The fifty-third week in 1994 reduced the ongoing profit growth by approximately 4 points. The profit growth reflected volume gains of $18 million ($24 million excluding the impact of the fifty-third week) and the higher effective net pricing. Almost fully offsetting these gains were increased store operating costs, increased overhead costs, primarily for new product development, reduced favorable actuarial adjustments for casualty claims liabilities and losses attributed to expanding delivery service. The higher store operating costs reflected increased labor costs, primarily as a result of efforts to improve restaurant quality and service. The profit growth was also mitigated by $7 million of store closure costs in 1995 compared to $5 million in 1994. The ongoing profit margin decreased slightly to 6.0%.

1994 vs. 1993

Net sales rose $66 million or 4%. The fifty-third week contributed approximately 2 points to the sales growth. The increased sales reflected an increase in volume of $49 million, as gains from the Colonel's Rotisserie Gold roasted chicken product and accompanying side items (collectively, "CRG"), and the value-oriented Mega Meal were partially offset by lower volumes of existing products, and higher net pricing. Same store sales for company-operated units advanced 2%, though volumes grew at a slightly slower rate.

Operating profit increased $10 million or 11%. The fifty-third week contributed approximately 4 points to the profit growth. The increased profit benefited from the absence of last year's start-up costs associated with CRG. Higher net pricing and volume gains of $16 million ($10 million excluding the impact of the fifty-third week) were offset by a mix shift to the lower-margin CRG and Mega Meal offerings. Reduced store operating costs, including lower product costs, primarily due to reformulation of side items late in the second quarter, and the 1994 impact of favorable actuarial adjustments to prior years workers' compensation claim accruals, were partially offset by increased administrative costs. Profit growth was depressed by lapping last year's $3 million favorable adjustment to a 1991 reorganization accrual. The profit margin increased nearly one-half point to 6.2%.

International

($ in millions)	1995	1994	1993	% Growth Rates 1995	% Growth Rates 1994
Net Sales	**$2,126**	$1,827	$1,330	**16**	37
Operating Profit					
Reported	**$ (21)**	$ 71	$ 93	**NM**	(24)
*Ongoing**	**$ 114**	$ 71	$ 93	**61**	(24)

** 1995 excluded the initial, noncash charge upon adoption of SFAS 121. See Notes 2 and 19.*
NM = Not Meaningful.

1995 Restaurant Unit Activity

	Company-Operated	Joint Venture	Franchised	Licensed	Total
Beginning of Year	2,222	863	4,126	137	7,348
New Builds & Acquisitions	262	85	336	65	748
Refranchising & Licensing	(6)	(6)	12	–	–
Closures	(24)	(16)	(48)	(5)	(93)
End of Year	2,454*	926	4,426	197	8,003

** As of year-end 1995, closure costs have been recorded for 44 of these units, which are expected to be closed in 1996.*

1995 vs. 1994

The KFC, Pizza Hut and Taco Bell concepts represented approximately 55%, 40% and 5%, respectively, of total international restaurant sales in 1995 and 1994.

Net sales increased $299 million or 16%, with Pizza Hut representing approximately 65% of the increased sales. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales increase primarily reflected additional units of $244 million.

Reported operating profit declined $92 million to a loss of $21 million. Excluding the initial charge upon adoption of SFAS 121, with Spain, Canada and Mexico accounting for almost three quarters of the charge, operating profit increased $43 million or 61%. Excluding shared overhead costs, Pizza Hut and KFC contributed about equally to the increased operating profit. The fifty-third week in 1994 reduced the ongoing operating profit growth rate by approximately 7 points. The increased profit reflected higher effective net pricing, additional units that contributed $22 million, increased franchise royalty revenues and net favorable currency translation impacts. These gains were partially offset by higher store operating costs, led by increased food prices, increased administrative and support costs, and a $17 million reduction in volumes ($14 million excluding the impact of the fifty-third week). The increased administrative and support costs reflected spending to support country development strategies, partially offset by lapping a $7 million charge late in 1994 to consolidate the international headquarters operations in the U.S. of the three concepts and the related savings in 1995 from this consolidation as well as savings from a consolidation of regional and country headquarter operations. The ongoing profit margin increased 1 1/2 points to 5.4%.

Following is a discussion of ongoing operating profit by key international market. Increased profit in Australia, our largest international sales market, was primarily driven by the full implementation of its value strategy, the adoption of store cost control measures and a gain resulting from the sale of several store properties leased to a franchisee as well as the refranchising of a few stores. Profit gains in Korea primarily reflected additional units, while higher profit in New Zealand primarily reflected volume growth and acquired units. Profit also rose in Canada and the U.K., reflecting higher guest check averages and acquired units, respectively. Partially offsetting these profit gains were significantly increased losses in Spain, Mexico and Brazil. Spain reflected closure costs for a significant number of stores scheduled to be closed in 1996, poor performance by new units, volume declines and increased costs. As discussed on page 14, results in Mexico have been adversely impacted by the economic difficulties resulting from the significant devaluation of the Mexican peso. Net sales in Mexico declined 44%, while operating losses increased $8 million to $17 million, reflecting lower volumes and higher costs, which were only partially offset by higher effective pricing and the favorable currency translation impact on increased local currency operating losses. Brazil's increased losses were primarily due to higher administrative and support costs.

1994 vs. 1993

KFC, Pizza Hut and Taco Bell represented approximately 55%, 40% and 5%, respectively, of total international sales in 1994 and 1993.

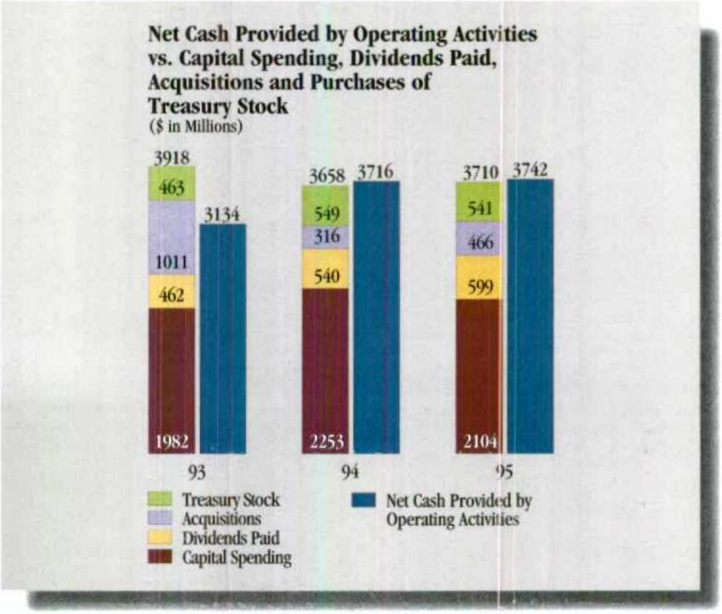
Net sales increased $497 million or 37%, with KFC and Pizza Hut each contributing about equally to the sales increase. The fifty-third week contributed approximately 2 points to the sales growth. The sales growth primarily reflected additional units of $398 million and volume growth of $121 million, partially offset by lower net pricing.

Operating profit declined $22 million or 24%. The decline in operating profit was due to Pizza Hut. The fifty-third week mitigated the rate of profit decline by approximately 3 points. The decreased profit reflected lower net pricing, increased administrative and support costs, primarily to support an extraordinary rate of unit development, higher store operating costs and a $7 million charge to consolidate the headquarters operations in the U.S. for the three international restaurant concepts into one. These were partially offset by increased volumes of $52 million ($49 million excluding the impact of the fifty-third week), additional units that contributed $29 million and higher franchise royalty revenues.

Following is a discussion of operating profit by key international market. Australia, our largest international sales market, had slightly lower profit. Korea's operating profit increased significantly, driven by additional units and volume gains. Profit declined sharply in Mexico and Canada, due in part to increased administrative costs. Brazil incurred an operating loss as a result of losses on acquired units. Poland experienced additional start-up losses from new operations. Profit increases in New Zealand and the U.K. reflected volume gains and acquired units, respectively. The profit margin declined more than 3 points to 3.9%.

Consolidated Cash Flows

Cash flow activity in 1995 reflected strong cash flows from operations of $3.7 billion which were used to fund capital spending of $2.1 billion, dividend payments of $599 million, purchases of treasury stock totaling $541 million and acquisition and investment activity of $466 million.



One of PepsiCo's most significant financial strengths is its internal cash generation capability. In fact, after capital spending and acquisitions, each of our three industry segments generated positive cash flows in 1995, led by restaurants, which generated nearly $600 million in cash flow compared to marginally positive cash flows in 1994. Net cash flows from PepsiCo's U.S. businesses were partially offset by international uses of cash, reflecting strategies to accelerate growth of international operations.

Cash Flows – Summary of Operating Activities

($ in millions)	1995	1994	1993
Income before cumulative effect of accounting changes	**$1,606**	$1,784	$1,588
Impairment of long-lived assets	**520**	–	–
Other noncash charges, net	**2,027**	1,901	1,872
Income before noncash charges and credits	**4,153**	3,685	3,460
Net change in operating working capital	**(411)**	31	(326)
Net Cash Provided by Operating Activities	**$3,742**	$3,716	$3,134

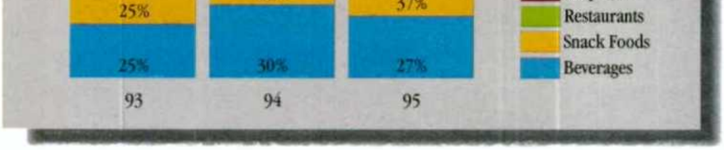
Net cash provided by operating activities in 1995 rose $26 million or 1% over 1994, and in 1994, grew $582 million or 19% over 1993. Income before noncash charges and credits rose 13% in 1995 and 7% in 1994. Increased noncash charges of $646 million in 1995 reflected the $520 million initial, noncash impact of adopting SFAS 121 and increased depreciation and amortization charges of $163 million, partially offset by increased deferred income tax benefits of $44 million, primarily resulting from the adoption of SFAS 121. The $29 million increase in 1994 reflected increased depreciation and amortization charges of $133 million and a decrease of $150 million in the deferred income tax provision, primarily due to the effect in 1994 of converting from premium-based casualty insurance to self-insurance for most of these risks, and adopting SFAS 112 for accounting for postemployment benefits. The working capital net cash outflows of $411 million in 1995 compared

to cash inflows of $31 million in 1994 primarily reflected increased growth in accounts and notes receivable, a decrease in income taxes payable in 1995 compared to an increase in 1994 and reduced growth in other current liabilities in 1995 compared to 1994, partially offset by increased growth in accounts payable, led by U.S. beverages, and a reduction in the amounts prefunded in 1995 for employee benefits. The growth in accounts and notes receivable was driven by worldwide beverages, which reflected slower collections and volume growth. The 1994 over 1993 net increase of $357 million reflected normal increases in accrued liabilities across all of our businesses, lapping the effect of higher income tax payments and a lower provision in 1993, and improved trade receivable collections, partially offset by the impact on accounts payable of the timing of a large year-end payment to prefund employee benefits.

Cash Flows – Summary of Investing Activities

($ in millions)	1995	1994	1993
Acquisitions and investments in unconsolidated affiliates	**$ (466)**	$ (316)	$(1,011)
Capital spending	**(2,104)**	(2,253)	(1,982)
Sales of restaurants	**165**	–	7
Net short-term investments	**64**	421	259
Other investing activities, net	**(109)**	(213)	(44)
Net Cash Used for Investing Activities	**$(2,450)**	$(2,361)	$(2,771)

Investing activities over the past three years reflected strategic investments in all three industry segments through capital spending, and acquisitions and investments in unconsolidated affiliates. PepsiCo's investments are expected to generate cash returns in excess of its long-term cost of capital, which is estimated to be approximately 10% at year-end 1995. See Note 17 for a discussion of acquisitions and investments in unconsolidated affiliates. About 85% of the total acquisition and investment activity in 1995 represented international transactions compared to 75% in 1994. PepsiCo continues to seek opportunities to strengthen its position in its industry segments, particularly in beverages and snack foods, through strategic acquisitions.



The $149 million decline in capital spending in 1995 reflected substantially reduced spending in restaurants, consistent with our restaurant strategy discussed on page 22. Increased U.S. snack food spending, primarily for capacity expansion and new products, was partially offset by a decline in beverages. Increased capital spending of $271 million in 1994 reflected beverage investments in equipment for new packaging and new products in the U.S. and emerging international markets, primarily Eastern Europe. International capital spending represented 29%, 35% and 31% of total segment spending in 1995, 1994 and 1993, respectively. Beverages, snack foods and restaurants represent about 30%, 40% and 30%, respectively, of the $2.5 billion of planned spending in 1996. This reflects the continued shift from restaurants to snack foods. Snack food and beverage 1996 capital spending reflects production capacity expansion for both established and new products, and equipment replacements. Although restaurant spending in 1996 is expected to be about equal to 1995's level, we expect more of the spending in 1996 to be used for refurbishing our existing restaurants and less spent on new store development. Approximately 25% of the planned 1996 capital spending relates to international businesses.

Consistent with management's strategy to improve restaurant returns (see Management's Analysis – Restaurants on page 22), proceeds from sales of restaurants in 1995 were $165 million. Although difficult to forecast, management anticipates continued cash flow from this kind of activity over the next few years.

As discussed in Financial Leverage on page 29, PepsiCo manages the investment activity in its short-term portfolios, primarily held outside the U.S., as part of its overall financing strategy.

Cash Flows – Summary of Financing Activities

($ in millions)	1995	1994	1993
Net short and long-term debt	**$ (303)**	$ (205)	$ 590
Cash dividends paid	**(599)**	(540)	(462)
Purchases of treasury stock	**(541)**	(549)	(463)
Proceeds from exercises of stock options	**252**	97	69
Other, net	**(42)**	(43)	(37)
Net Cash Used for Financing Activities	**$(1,233)**	$(1,240)	$(303)

The net cash flow used for financing activities in 1995 was about even with 1994. In 1995, increased proceeds from exercises of stock options of $155 million were offset by increased net repayments of short and long-term debt of $98 million and higher cash dividends paid of $59 million. The 1994 over 1993 change in cash flows from financing activities was a use of $937 million, primarily reflecting net repayment of short and long-term debt of $205 million compared to net proceeds of $590 million in 1993.

Cash dividends declared were $615 million in 1995 and $555 million in 1994. PepsiCo targets a dividend payout of about one-third of the prior year's income from ongoing operations, thus retaining sufficient earnings to provide financial resources for growth opportunities.

Share repurchase decisions are evaluated considering management's target capital structure and other investment opportunities. PepsiCo expects to repurchase at least 1% to 2% of its outstanding shares each year for the next several years. During 1995, PepsiCo repurchased 1.6% of its shares outstanding at the beginning of 1995, or 12.3 million shares, at a cost of $541 million. Subsequent to year-end, PepsiCo repurchased 1.7 million shares through February 6, 1996 at a cost of $99 million. During 1994, PepsiCo repurchased 1.9% of the shares outstanding at the beginning of 1994, or 15.0 million shares, at a cost of $549 million. Through February 6, 1996, 29.4 million shares have been repurchased under the 50 million share repurchase authority granted by PepsiCo's Board of Directors in July 1993. In February 1996, PepsiCo's Board of Directors replaced the 1993 share repurchase authority with a new authority for 50 million shares.

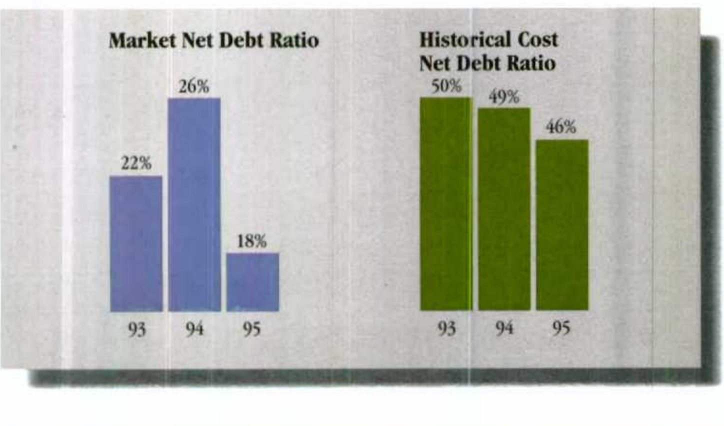
Consolidated Financial Condition

Assets increased $640 million or 3% to $25.4 billion. The increase reflected the normal growth of the businesses, partially offset by the impact of the initial charge of $520 million upon adoption of SFAS 121 (see Note 2) primarily affecting property, plant and equipment, intangible assets and, to a much lesser extent, investments in unconsolidated affiliates and other noncurrent assets. Increased accounts and notes receivable reflected slower collections and volume advances in worldwide beverages and snack foods. Short-term investments largely represent high-grade marketable securities portfolios held outside the U.S. Our portfolio in Puerto Rico, which totaled $816 million at year-end 1995 and $853 million at year-end 1994, arises from the operating cash flows of a centralized concentrate manufacturing facility that operates under a tax incentive grant. The grant provides that the portfolio funds may be remitted to the U.S. without any additional tax. PepsiCo remitted $792 million of the portfolio to the U.S. in 1995 and $380 million in 1994. PepsiCo continually reassesses its alternatives to redeploy its maturing investments in this and other portfolios held outside the U.S., considering other investment opportunities and risks, tax consequences and overall financing strategies.

Liabilities rose $183 million or 1% to $18.1 billion. The $643 million increase in other long-term liabilities was partially offset by a $304 million reduction in debt. The increase in other long-term liabilities primarily reflected normal growth and a reclassification of amounts to current liabilities.

At year-end 1995 and 1994, $3.5 billion and $4.5 billion, respectively, of short-term borrowings were classified as long-term, reflecting PepsiCo's intent and ability, through the existence of its unused revolving credit facilities, to refinance these borrowings. PepsiCo's unused credit facilities with lending institutions, which exist largely to support the issuances of short-term borrowings, were $3.5 billion at year-end 1995 and 1994. Effective January 3, 1995, PepsiCo replaced its existing credit facilities with revolving credit facilities aggregating $4.5 billion, of which $1.0 billion was to expire in 1996 and $3.5 billion was to expire in 2000. Effective December 8, 1995, PepsiCo terminated the $1.0 billion due to expire in 1996 based upon a current assessment of the amount of credit facilities required compared to its related cost. The expiration of the remaining credit facilities of $3.5 billion was extended to 2001. Annually, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions.

Financial Leverage is measured by PepsiCo on both a market value and historical cost basis. PepsiCo believes that the most meaningful measure of debt is on a net basis, which takes into account its large investment portfolios held outside the U.S. These portfolios are managed as part of PepsiCo's overall financing strategy and are not required to support day-to-day operations. Net debt reflects the pro forma remittance of the portfolios (net of related taxes) as a reduction of total debt. Total debt includes the present value of operating lease commitments.



PepsiCo believes that market leverage (defined as net debt as a percent of net debt plus the market value of equity, based on the year-end stock price) is an appropriate measure of PepsiCo's long-term financial leverage. Unlike historical cost measures, the market value of equity primarily reflects the estimated net present value of expected future cash flows that will both support debt and provide returns to shareholders. PepsiCo has established a long-term target range of 20%-25% for its market net debt ratio to optimize its cost of capital.

The market net debt ratio declined 8 points to 18% at year-end 1995 due primarily to a 54% increase in PepsiCo's stock price. The 4 point increase to 26% at year-end 1994 was due to a 13% decline in PepsiCo's stock price as well as an 8% increase in net debt.

As measured on an historical cost basis, the ratio of net debt to net capital employed (defined as net debt, other liabilities, deferred income taxes and shareholders' equity) declined 3 points to 46%, reflecting a 2% decline in net debt and a 4% increase in net capital employed. The 1 point decline to 49% at year-end 1994 was due to a 9% increase in net capital employed, partially offset by the increase in net debt.

Because of PepsiCo's strong cash generating capability and its strong financial condition, PepsiCo has continued access to capital markets throughout the world.

At year-end 1995, about 62% of PepsiCo's net debt portfolio, including the effects of interest rate and currency swaps (see Note 8), was exposed to variable interest rates, compared to about 60% in 1994. In addition to variable rate long-term debt, all net debt with maturities of less than one year is categorized as variable. PepsiCo prefers funding its operations with variable rate debt because it believes that, over the long-term, variable rate debt provides more cost effective financing than fixed rate debt. PepsiCo will issue fixed rate debt if advantageous market opportunities arise. A 1 point change in interest rates on variable rate net debt would impact annual interest expense, net of interest income, by approximately $36 million ($19 million after-tax or $0.02 per share) assuming the level and mix of the December 30, 1995 net debt portfolio were maintained.

PepsiCo's negative operating working capital position, which principally reflects the cash sales nature of its restaurant operations, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative $94 million and $677 million at year-end 1995 and 1994, respectively. The $583 million decline in negative working capital primarily reflected the reclassification of amounts from long-term to current liabilities, base business growth in the more working capital intensive bottling and snack food operations exceeding the growth in restaurant operations and an increase in prepaid taxes.

Shareholders' Equity increased $457 million or 7% to $7.3 billion. This change reflected a 13% increase in retained earnings due to $1.6 billion in net income less dividends declared of $615 million. This growth was reduced by a $337 million unfavorable change in the currency translation adjustment account (CTA) and a $322 million increase in treasury stock, reflecting repurchases of 12 million shares offset by 10 million shares used for stock option exercises. The CTA change primarily reflected the effects of the Mexican peso devaluation.

Return on Average Shareholders' Equity

Based on income before cumulative effect of accounting changes, PepsiCo's return on average shareholders' equity was 23% and 27% in 1995 and 1994, respectively. Excluding the initial charge upon adoption of SFAS 121 in 1995 (see Note 2) and the 1994 BAESA gain (see Note 16), the return on average shareholder's equity was 27% in 1995 and 1994.

Consolidated Statement of Income

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 1995, December 31, 1994 and December 25, 1993

	1995 (52 Weeks)	1994 (53 Weeks)	1993 (52 Weeks)
Net Sales	**$30,421**	$28,472	$25,021
Costs and Expenses, net			
Cost of sales	**14,886**	13,715	11,946
Selling, general and administrative expenses	**11,712**	11,244	9,864
Amortization of intangible assets	**316**	312	304
Impairment of long-lived assets	**520**	–	–
Operating Profit	**2,987**	3,201	2,907
Gain on stock offering by an unconsolidated affiliate	**–**	18	–
Interest expense	**(682)**	(645)	(573)
Interest income	**127**	90	89
Income Before Income Taxes and Cumulative Effect of Accounting Changes	**2,432**	2,664	2,423
Provision for Income Taxes	**826**	880	835
Income Before Cumulative Effect of Accounting Changes	**1,606**	1,784	1,588
Cumulative Effect of Accounting Changes			
Postemployment benefits (net of income tax benefit of $29)	**–**	(55)	–
Pension assets (net of income tax expense of $15)	**–**	23	–
Net Income	**$ 1,606**	$ 1,752	$ 1,588
Income (Charge) Per Share			
Before cumulative effect of accounting changes	**$ 2.00**	$ 2.22	$ 1.96
Cumulative effect of accounting changes			
Postemployment benefits	**–**	(0.07)	–
Pension assets	**–**	0.03	–
Net Income Per Share	**$ 2.00**	$ 2.18	$ 1.96
Average shares outstanding	**804**	804	810

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 1995, December 31, 1994 and December 25, 1993

	1995 (52 Weeks)	1994 (53 Weeks)	1993 (52 Weeks)
Cash Flows – Operating Activities			
Income before cumulative effect of accounting changes	**$ 1,606**	$ 1,784	$ 1,588
Adjustments to reconcile income before cumulative effect of accounting changes to net cash provided by operating activities			
Depreciation and amortization	**1,740**	1,577	1,444
Impairment of long-lived assets	**520**	–	–
Deferred income taxes	**(111)**	(67)	83
Other noncash charges and credits, net	**398**	391	345
Changes in operating working capital, excluding effects of acquisitions			
Accounts and notes receivable	**(434)**	(112)	(161)
Inventories	**(129)**	(102)	(90)
Prepaid expenses, taxes and other current assets	**76**	1	3
Accounts payable	**133**	30	143
Income taxes payable	**(97)**	55	(125)
Other current liabilities	**40**	159	(96)
Net change in operating working capital	**(411)**	31	(326)
Net Cash Provided by Operating Activities	**3,742**	3,716	3,134
Cash Flows – Investing Activities			
Acquisitions and investments in unconsolidated affiliates	**(466)**	(316)	(1,011)
Capital spending	**(2,104)**	(2,253)	(1,982)
Sales of property, plant and equipment	**138**	55	73
Sales of restaurants	**165**	–	7
Short-term investments, by original maturity			
More than three months-purchases	**(289)**	(219)	(579)
More than three months-maturities	**335**	650	846
Three months or less, net	**18**	(10)	(8)
Other, net	**(247)**	(268)	(117)
Net Cash Used for Investing Activities	**(2,450)**	(2,361)	(2,771)
Cash Flows – Financing Activities			
Proceeds from issuances of long-term debt	**2,030**	1,285	711
Payments of long-term debt	**(928)**	(1,180)	(1,202)
Short-term borrowings, by original maturity			
More than three months-proceeds	**2,053**	1,304	3,034
More than three months-payments	**(2,711)**	(1,728)	(2,792)
Three months or less, net	**(747)**	114	839
Cash dividends paid	**(599)**	(540)	(462)
Purchases of treasury stock	**(541)**	(549)	(463)
Proceeds from exercises of stock options	**252**	97	69
Other, net	**(42)**	(43)	(37)
Net Cash Used for Financing Activities	**(1,233)**	(1,240)	(303)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(8)**	(11)	(3)
Net Increase in Cash and Cash Equivalents	**51**	104	57
Cash and Cash Equivalents – Beginning of Year	**331**	227	170
Cash and Cash Equivalents – End of Year	**$ 382**	$ 331	$ 227
Supplemental Cash Flow Information			
Cash Flow Data			
Interest paid	**$ 671**	591	550
Income taxes paid	**$ 790**	663	676
Schedule of Noncash Investing and Financing Activities			
Liabilities assumed in connection with acquisitions	**$ 66**	224	897
Issuance of treasury stock and debt for acquisitions	**$ 9**	39	365
Book value of net assets exchanged for investments in unconsolidated affiliates	**$ 39**	–	61

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

(in millions except per share amount)
PepsiCo, Inc. and Subsidiaries
December 30, 1995 and December 31, 1994

	1995	1994
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 382**	$ 331
Short-term investments, at cost	**1,116**	1,157
	1,498	1,488
Accounts and notes receivable, less allowance: $150 in 1995 and $151 in 1994	**2,407**	2,051
Inventories	**1,051**	970
Prepaid expenses, taxes and other current assets	**590**	563
Total Current Assets	**5,546**	5,072
Investments in Unconsolidated Affiliates	**1,635**	1,295
Property, Plant and Equipment, net	**9,870**	9,883
Intangible Assets, net	**7,584**	7,842
Other Assets	**797**	700
Total Assets	**$25,432**	$24,792
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 1,556**	$ 1,452
Accrued compensation and benefits	**815**	753
Short-term borrowings	**706**	678
Accrued marketing	**469**	546
Income taxes payable	**387**	672
Other current liabilities	**1,297**	1,169
Total Current Liabilities	**5,230**	5,270
Long-term Debt	**8,509**	8,841
Other Liabilities	**2,495**	1,852
Deferred Income Taxes	**1,885**	1,973
Shareholders' Equity		
Capital stock, par value 1⅔¢ per share: authorized 1,800 shares, issued 863 shares	**14**	14
Capital in excess of par value	**1,060**	935
Retained earnings	**8,730**	7,739
Currency translation adjustment and other	**(808)**	(471)
	8,996	8,217
Less: Treasury stock, at cost: 75 shares and 73 shares in 1995 and 1994, respectively	**(1,683)**	(1,361)
Total Shareholders' Equity	**7,313**	6,856
Total Liabilities and Shareholders' Equity	**$25,432**	$24,792

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 1995, December 31, 1994 and December 25, 1993

	Capital Stock							
	Issued		Treasury		Capital in Excess of Par Value	Retained Earnings	Currency Translation Adjustment and Other	Total
	Shares	Amount	Shares	Amount				
Shareholders' Equity, December 26, 1992	863	$14	(64)	$ (667)	$ 668	$ 5,440	$ (99)	$ 5,356
1993 Net income	–	–	–	–	–	1,588	–	1,588
Cash dividends declared (per share-$0.61)	–	–	–	–	–	(486)	–	(486)
Currency translation adjustment	–	–	–	–	–	–	(77)	(77)
Purchases of treasury stock	–	–	(12)	(463)	–	–	–	(463)
Shares issued in connection with acquisitions	–	–	9	170	165	–	–	335
Stock option exercises, including tax benefits of $23	–	–	3	46	46	–	–	92
Pension liability adjustment, net of deferred taxes of $5	–	–	–	–	–	–	(8)	(8)
Other	–	–	–	1	1	–	–	2
Shareholders' Equity, December 25, 1993	863	$14	(64)	$ (913)	$ 880	$ 6,542	$ (184)	$ 6,339
1994 Net income	–	–	–	–	–	1,752	–	1,752
Cash dividends declared (per share-$0.70)	–	–	–	–	–	(555)	–	(555)
Currency translation adjustment	–	–	–	–	–	–	(295)	(295)
Purchases of treasury stock	–	–	(15)	(549)	–	–	–	(549)
Stock option exercises, including tax benefits of $27	–	–	5	81	44	–	–	125
Shares issued in connection with acquisitions	–	–	1	15	14	–	–	29
Pension liability adjustment, net of deferred taxes of $5	–	–	–	–	–	–	8	8
Other	–	–	–	5	(3)	–	–	2
Shareholders' Equity, December 31, 1994	863	$14	(73)	$ (1,361)	$ 935	$ 7,739	$ (471)	$ 6,856
1995 Net income	**–**	**–**	**–**	**–**	**–**	**1,606**	**–**	**1,606**
Cash dividends declared (per share-$0.78)	**–**	**–**	**–**	**–**	**–**	**(615)**	**–**	**(615)**
Currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**(337)**	**(337)**
Purchases of treasury stock	**–**	**–**	**(12)**	**(541)**	**–**	**–**	**–**	**(541)**
Stock option exercises, including tax benefits of $91	**–**	**–**	**10**	**218**	**125**	**–**	**–**	**343**
Other	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**
Shareholders' Equity, December 30, 1995	**863**	**$14**	**(75)**	**$(1,683)**	**$1,060**	**$8,730**	**$(808)**	**$7,313**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular dollars in millions except per share amounts)

Note 1 – Summary of Significant Accounting Policies

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

To facilitate the closing process, certain of PepsiCo's international operations close their fiscal year up to one month earlier than PepsiCo's fiscal year.

Certain reclassifications were made to prior year amounts to conform with the 1995 presentation.

Accounting Changes. As discussed below and in Note 2, in 1995 PepsiCo early adopted Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." In 1994, PepsiCo adopted Statement of Financial Accounting Standards No. 112, "Accounting for Postemployment Benefits," (see Note 14) and a preferred method of calculating the market-related value of plan assets used in determining pension expense (see Note 13).

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," permits stock compensation cost to be measured using either the intrinsic value-based method or the fair value-based method. When adopted in 1996, PepsiCo intends to continue to use the intrinsic value-based method and will provide the expanded disclosures required by SFAS 123.

Principles of Consolidation. The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method and PepsiCo's share of the net income or loss of its affiliates is included in selling, general and administrative expenses.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. The fiscal year ending December 31, 1994 consisted of 53 weeks.

Marketing Costs. Marketing costs are reported in selling, general and administrative expenses and include costs of advertising, marketing and promotional programs. Promotional discounts are expensed as incurred and other marketing costs not deferred at year-end are charged to expense ratably in relation to sales over the year in which incurred. Marketing costs deferred at year-end, which are classified in prepaid expenses in the Consolidated Balance Sheet, consist of media and personal service advertising prepayments, promotional materials in inventory and production costs of future media advertising; these assets are expensed in the year first used.

Promotional discounts to retailers in the beverage segment are classified as a reduction of sales; in the snack food segment, such discounts are generally classified as marketing costs. The difference in classification reflects our view that promotional discounts are so pervasive in the beverage industry, compared to the snack food industry, that they are effectively price discounts and should be classified accordingly. A current survey of the accounting practice of others in the beverage and snack food industries confirmed that our beverage classification is consistent with others in that industry while practice in the snack food industry is mixed.

Advertising expense was $1.8 billion, $1.7 billion and $1.6 billion in 1995, 1994 and 1993, respectively. Prepaid advertising as of year-end 1995 and 1994 was $78 million and $70 million, respectively.

Research and Development Expenses. Research and development expenses, which are expensed as incurred, were $96 million, $152 million and $113 million in 1995, 1994 and 1993, respectively.

Stock-Based Compensation. PepsiCo uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of PepsiCo's capital stock at the grant date over the amount the employee must pay for the stock. PepsiCo's policy is to grant stock options at fair market value at the date of grant.

Net Income Per Share. Net income per share is computed by dividing net income by the weighted average number of shares and dilutive share equivalents (primarily stock options) outstanding during each year ("average shares outstanding").

Derivative Instruments. PepsiCo's policy prohibits the use of derivative instruments for trading purposes and PepsiCo has procedures in place to monitor and control their use.

PepsiCo enters into interest rate and currency swaps with the objective of reducing borrowing costs. Interest rate and currency swaps are used to effectively change the interest rate and currency of specific debt issuances. In general, the terms of these swaps match the terms of the related debt and the swaps are entered into concurrently with the issuance of the debt they are intended to modify. The interest differential to be paid or received on an interest rate swap is recognized as an adjustment to interest expense as the differential occurs. The interest differential not yet settled in cash is reflected in the Consolidated Balance Sheet as a receivable or payable under the appropriate current asset or liability caption. If an interest rate swap position was to be terminated, the gain or loss realized upon termination would be deferred and amortized to interest expense over the remaining term of the underlying debt instrument it was intended to modify or would be recognized immediately if the underlying debt instrument was settled prior to maturity. The differential to be paid or received on a currency swap is charged or credited to income as the differential occurs. This is fully offset by the corresponding gain or loss recognized in income on the currency translation of the related non-U.S. dollar denominated debt, as both amounts are based upon the same exchange rates. The currency differential not yet settled in cash is reflected in the Consolidated Balance Sheet under the appropriate current or noncurrent receivable or payable caption. If a currency swap position was to be terminated prior to maturity, the gain or loss realized upon termination would be immediately recognized in income.

A seven-year put option, issued in connection with the formation of a joint venture with the principal shareholder of GEMEX, an unconsolidated franchised bottling affiliate in Mexico (see Note 17), is marked-to-market with gains or losses recognized currently as an adjustment to PepsiCo's share of the net income of unconsolidated affiliates. The offsetting amount adjusts the carrying amount of the put obligation, classified in other liabilities in the Consolidated Balance Sheet.

Gains and losses on futures contracts designated as hedges of future commodity purchases are deferred and included in the cost of the related raw materials when purchased. Changes in the value of futures contracts that PepsiCo uses to hedge commodity purchases are highly correlated to the changes in the value of the purchased commodity. If the degree of correlation between the futures contracts and the purchase contracts were to diminish such that the two were no longer considered highly correlated, subsequent changes in the value of the futures contracts would be recognized in income.

Cash Equivalents. Cash equivalents represent funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, largely held outside the U.S., are primarily classified as short-term investments.

Inventories. Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out [LIFO] method) or net realizable value.

Property, Plant and Equipment. Property, plant and equipment (PP&E) are stated at cost, except for PP&E that have been impaired, for which the carrying amount is reduced to estimated fair value. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the assets.

Intangible Assets. Intangible assets are amortized on a straight-line basis over appropriate periods, generally ranging from 20 to 40 years.

Recoverability of Long-Lived Assets to be Held and Used in the Business. As noted above, PepsiCo early adopted SFAS 121 in 1995 for purposes of determining and measuring impairment of certain long-lived assets to be held and used in the business. See Note 2.

PepsiCo reviews most long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used in the business for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable. PepsiCo considers a history of operating losses to be its primary indicator of potential impairment. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets ("Assets"). PepsiCo has identified the appropriate grouping of Assets to be individual restaurants for the restaurant segment and, for each of the snack food and beverage segments, Assets are generally grouped at the country level. PepsiCo deems an Asset to be impaired if a forecast of undiscounted future operating cash flows directly related to the Asset, including disposal value if any, is less than its carrying amount. If an Asset is determined to be impaired, the loss is measured as the amount by which the carrying amount of the Asset exceeds its fair value. Fair value is based on quoted market prices in active markets, if available. If quoted market prices are not available, an estimate of fair value is based on the best information available, including prices for similar assets or the results of valuation techniques such as discounting estimated future cash flows as if the decision to continue to use the impaired Asset was a new investment decision. PepsiCo generally measures fair value by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates.

Recoverability of other long-lived assets, primarily investments in unconsolidated affiliates and identifiable intangibles and goodwill not identified with impaired Assets covered by the above paragraph, will continue to be evaluated on a recurring basis. The primary indicators of recoverability are current or forecasted profitability over the estimated remaining life of these assets, based on the operating profit of the businesses directly related to these assets. If recoverability is unlikely based on the evaluation, the carrying amount is reduced by the amount it exceeds the forecasted operating profit and any estimated disposal value.

Note 2 – Impairment of Long-Lived Assets

PepsiCo early adopted Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," as of the beginning of the fourth quarter of 1995. This date was chosen to allow adequate time to collect and analyze data related to the long-lived assets of each of our worldwide operations for purposes of identifying, measuring and reporting any impairment in 1995.

The initial, noncash charge upon adoption of SFAS 121 was $520 million ($384 million after-tax or $0.48 per share), which included $68 million ($49 million after-tax or $0.06 per share) related to restaurants for which closure decisions were made during the fourth quarter. This initial charge resulted from PepsiCo grouping assets at a lower level than under its previous accounting policy for evaluating and measuring impairment. Under PepsiCo's previous accounting policy, each of PepsiCo's operating divisions' ("Division") long-lived assets to be held and used by the Division, other than intangible assets, were evaluated as a group for impairment if the Division was incurring operating losses or was expected to incur operating losses in the future. Because of the strong operating profit history and prospects of each Division, no impairment evaluation had been required for 1994 or 1993 under PepsiCo's previous accounting policy. The initial charge represented a reduction of the carrying amounts of the impaired Assets (as defined in Note 1) to their estimated fair value, as determined by using discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates. This charge affected worldwide restaurants, international beverages and, to a much lesser extent, international snack foods and certain unconsolidated affiliates. See Note 19.

As a result of the reduced carrying amount of the impaired Assets, depreciation and amortization expense for the fourth quarter of 1995 was reduced by $21 million ($15 million after-tax or $0.02 per share) and full-year 1996 depreciation and amortization expense is expected to be reduced by approximately $58 million ($39 million after-tax or $0.05 per share). See Management's Analysis – Restaurants on page 22 for a discussion of other possible future effects related to this change in accounting.

SFAS 121 also requires, among other provisions, that long-lived assets and certain identifiable intangibles to be disposed of that are not covered by APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," be reported at the lower of the asset's carrying amount or its fair value less cost to sell. Under PepsiCo's previous accounting policy, PepsiCo reported an asset to be disposed of at the lower of its carrying amount or its estimated net realizable value. There were no material adjustments to the carrying amounts of assets to be disposed of in 1995, 1994 or 1993 under PepsiCo's previous accounting policy. The impact of adopting SFAS 121 on assets held for disposal during 1995 was immaterial.

Note 3 – Items Affecting Comparability

The effect on comparability of 1995 net gains from sales of restaurants to franchisees in excess of the cost of closing other restaurants is provided under Net Refranchising Gains in Note 19.

The fifty-third week in 1994, as described under Fiscal Year in Note 1, increased 1994 net sales by an estimated $434 million and earnings by approximately $54 million ($35 million after-tax or $0.04 per share). See Fiscal Year in Note 19 for the estimated impact of the fifty-third week on comparability of segment net sales and operating profit.

The effects of unusual items on comparability of operating profit, primarily restructuring charges and accounting changes, are provided under Unusual Items and Accounting Changes, respectively, in Note 19.

Information regarding the 1994 gain from a public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America, and a 1993 charge to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. Federal tax legislation is provided in Notes 16 and 11, respectively.

Note 4 – Inventories

	1995	1994
Raw materials and supplies	$ 550	$455
Finished goods	501	515
	$1,051	$970

The cost of 32% of 1995 inventories and 38% of 1994 inventories was computed using the LIFO method. The carrying amount of total LIFO inventories

was lower than the approximate current cost of those inventories by $11 million at year-end 1995, but higher by $6 million at year-end 1994.

Note 5 – Property, Plant and Equipment, net

	1995	1994
Land	**$ 1,327**	$ 1,322
Buildings and improvements	**5,668**	5,664
Capital leases, primarily buildings	**531**	451
Machinery and equipment	**8,598**	8,208
Construction in progress	**627**	485
	16,751	16,130
Accumulated depreciation	**(6,881)**	(6,247)
	$ 9,870	$ 9,883

Depreciation expense in 1995, 1994 and 1993 was $1.3 billion, $1.2 billion and $1.1 billion, respectively. The adoption of SFAS 121 reduced the carrying amount of property, plant and equipment, net by $399 million. See Note 2.

Note 6 – Intangible Assets, net

	1995	1994
Reacquired franchise rights	**$3,826**	$3,974
Trademarks	**711**	768
Other identifiable intangibles	**286**	250
Goodwill	**2,761**	2,850
	$7,584	$7,842

Identifiable intangible assets primarily arose from the allocation of purchase prices of businesses acquired and consist principally of reacquired franchise rights and trademarks. Reacquired franchise rights relate to acquisitions of franchised bottling and restaurant operations and trademarks principally relate to acquisitions of international snack food and beverage businesses. Amounts assigned to such identifiable intangibles were based on independent appraisals or internal estimates. Goodwill represents the residual purchase price after allocation to all identifiable net assets.

Accumulated amortization, included in the amounts above, was $1.8 billion and $1.6 billion at year-end 1995 and 1994, respectively. The adoption of SFAS 121 reduced the carrying amount of intangible assets, net by $86 million. See Note 2.

Note 7 – Derivative Financial Instruments

PepsiCo's policy prohibits the use of derivative instruments for trading purposes and PepsiCo has procedures in place to monitor and control their use.

PepsiCo's use of derivative instruments is primarily limited to interest rate and currency swaps, which are entered into with the objective of reducing borrowing costs. PepsiCo enters into interest rate and foreign currency swaps to effectively change the interest rate and currency of specific debt issuances. These swaps are generally entered into concurrently with the issuance of the debt they are intended to modify. The notional amount, interest payment dates and maturity dates of the swaps match the principal, interest payment dates and maturity dates of the related debt. Accordingly, any market impact (risk or opportunity) associated with these swaps is fully offset by the opposite market impact on the related debt. PepsiCo's credit risk related to interest rate and currency swaps is considered low because they are only entered into with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. See Note 8 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps along with the original terms of the related debt and Note 9 for the fair value of these instruments.

In 1995, PepsiCo issued a seven-year put option in connection with the formation of a joint venture with the principal shareholder of GEMEX, an unconsolidated franchised bottling affiliate in Mexico. The put option allows the principal shareholder to sell up to 150 million GEMEX shares to PepsiCo at 66 2/3¢ per share. PepsiCo accounts for this put option by marking it to market with gains or losses recognized currently. The put option liability, which was valued at $26 million at the date of the original transaction, increased to $30 million by year-end, resulting in a $4 million charge to earnings.

Note 8 – Short-term Borrowings and Long-term Debt

	1995	1994
Short-term Borrowings		
Commercial paper (5.7% and 5.4%) **(A)**	**$ 2,006**	$ 2,254
Current maturities of long-term debt issuances **(A) (B)**	**1,405**	988
Notes (6.9% and 5.4%) **(A)**	**252**	1,492
Other borrowings (7.9% and 6.5%) **(C)**	**543**	444
Amount reclassified to long-term debt **(D)**	**(3,500)**	(4,500)
	$ 706	$ 678
Long-term Debt		
Short-term borrowings, reclassified **(D)**	**$ 3,500**	$ 4,500
Notes due 1996 through 2010 (6.3% and 6.6%) **(A)**	**3,886**	3,725
Euro notes due 1997 through 1998 (7.5% and 8.0%) **(A)**	**550**	250
Zero coupon notes, $780 million due 1996 through 2012 (14.4% annual yield to maturity) **(A)**	**234**	219
Swiss franc perpetual Foreign Interest Payment bonds **(E)**	**214**	213
Australian dollar 6.3% bonds due 1997 through 1998 with interest payable in Japanese yen **(A) (C)**	**212**	–
Japanese yen 3.3% bonds due 1997 **(C)**	**194**	201
Zero coupon notes, $200 million due 1999 (6.4% annual yield to maturity) **(A)**	**161**	–
Swiss franc 5.0% notes due 1999 **(A) (C)**	**108**	–
Italian lira 11.4% notes due 1998 **(A) (C)**	**95**	–
Luxembourg franc 6.6% notes due 1998 **(A) (C)**	**68**	–
Swiss franc 5¼% bearer bonds due 1995 **(C)**	**–**	100
Capital lease obligations (See Note 10)	**294**	298
Other, due 1996-2020 (6.8% and 8.1%)	**398**	323
	9,914	9,829
Less current maturities of long-term debt issuances **(B)**	**(1,405)**	(988)
	$ 8,509	$ 8,841

The interest rates in the above table indicate, where applicable, the weighted average of the stated rates at year-end 1995 and 1994, respectively, prior to the effects of any interest rate swaps. See **(A)** below for PepsiCo's weighted average interest rates after giving effect to the impact of the interest rate swaps.

The carrying amount of long-term debt includes any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which are currently significant to PepsiCo.

The annual maturities of long-term debt through 2000, excluding capital lease obligations and the reclassified short-term borrowings, are: 1996-$1.4 billion, 1997-$1.5 billion, 1998-$1.5 billion, 1999-$572 million and 2000-$651 million.

See Note 7 for a discussion of PepsiCo's use of interest rate and currency swaps and its management of the inherent credit risk and Note 9 for fair value information related to debt and interest rate and currency swaps.

(A) The following table indicates the notional amount and weighted average interest rates, by category, of interest rate swaps outstanding at year-end 1995

and 1994, respectively. The weighted average variable interest rates that PepsiCo pays, which are primarily indexed to either commercial paper or LIBOR rates, are based on rates as of the respective balance sheet date and are subject to change. Terms of interest rate swaps generally match the terms of the debt they modify and the swaps terminate in 1996 through 2010.

	1995	1994
Receive fixed-pay variable		
Notional amount	**$2,657**	$1,557
Weighted average receive rate	**6.8%**	5.9%
Weighted average pay rate	**5.7%**	6.1%
Receive variable-pay variable		
Notional amount	**$ 577**	$1,009
Weighted average receive rate	**5.7%**	4.9%
Weighted average pay rate	**5.8%**	6.0%
Receive variable-pay fixed		
Notional amount	**$ 215**	$ 215
Weighted average receive rate	**5.8%**	6.6%
Weighted average pay rate	**8.2%**	8.2%

The following table identifies the composition of total debt (excluding capital lease obligations and before the reclassification of amounts from short-term borrowings) after giving effect to the impact of interest rate swaps. All short-term borrowings are considered variable interest rate debt for purposes of this table.

	1995		1994	
	Carrying Amount	Weighted Average Interest Rate	Carrying Amount	Weighted Average Interest Rate
Variable interest rate debt				
Short-term borrowings	**$4,177**	**6.4%**	$5,149	6.2%
Long-term debt	**2,103**	**5.8%**	937	6.1%
	6,280	**6.2%**	6,086	6.2%
Fixed interest rate debt	**2,641**	**7.4%**	3,135	7.4%
	$8,921	**6.6%**	$9,221	6.6%

(B) Included certain long-term notes aggregating $248 million which are reasonably expected to be called, without penalty, by PepsiCo in 1996. The expectation is based upon the belief of PepsiCo management that, based upon projected yield curves, our counterparties to interest rate swaps, which were entered into to modify these notes, will exercise their option to early terminate the swaps without penalty. Also included the $214 million carrying amount of the Swiss franc perpetual Foreign Interest Payment bonds (see **(E)** below).

(C) PepsiCo has entered into currency swaps to hedge its foreign currency exposure on non-U.S. dollar denominated debt. At year-end 1995, the aggregate carrying amount of the debt was $696 million and the receivables and payables under related currency swaps were $5 million and $12 million, respectively, resulting in a net effective U.S. dollar liability of $703 million with a weighted average interest rate of 5.8%, including the effects of related interest rate swaps. At year-end 1994, the carrying amount of this debt aggregated $301 million and the receivables and payables under related currency swaps aggregated $50 million and $2 million, respectively, resulting in a net effective U.S. dollar liability of $253 million with a weighted average interest rate of 7.9%, including the effects of related interest rate swaps.

(D) At year-end 1995 and 1994, PepsiCo had unused revolving credit facilities covering potential borrowings aggregating $3.5 billion. Effective January 3, 1995, PepsiCo replaced its existing credit facilities with new revolving credit facilities aggregating $4.5 billion, of which $1.0 billion was to expire in 1996 and $3.5 billion was to expire in 2000. Effective December 8, 1995, PepsiCo terminated the $1.0 billion due to expire in 1996 based upon a current assessment of the amount of credit facilities required compared to its related cost. The expiration of the remaining credit facilities of $3.5 billion was extended to 2001. At year-end 1995 and 1994, $3.5 billion and $4.5 billion, respectively, of short-term borrowings were classified as long-term debt, reflecting PepsiCo's intent and ability, through the existence of the unused credit facilities, to refinance these borrowings. These credit facilities exist largely to support the issuances of short-term borrowings and are available for acquisitions and other general corporate purposes.

(E) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 is 7 1/2% through 1996. The bonds have no stated maturity date. At the end of each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can, and intends to, limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying amount. Interest payments are made in U.S. dollars and are calculated by applying the coupon rate to the original U.S. dollar principal proceeds of $214 million. Although PepsiCo does not currently intend to cause redemption of this debt, this debt has been included in current maturities of long-term debt (see **(B)** above) at year-end 1995 because the bondholders may exercise their right to cause PepsiCo to redeem the debt in 1996 on its 10-year anniversary date. Since the redemption feature is only available on each 10-year anniversary date, the bonds will be reclassified to long-term if redemption does not occur in 1996.

Note 9 – Fair Value of Financial Instruments

	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 382**	**$ 382**	$ 331	$ 331
Short-term investments	**$1,116**	**$1,116**	$1,157	$1,157
Other assets (noncurrent investments)	**$ 23**	**$ 23**	$ 48	$ 48
Liabilities				
Debt				
Short-term borrowings and long-term debt, net of capital leases	**$8,921**	**$9,217**	$9,221	$9,266
Debt-related derivative instruments				
Open contracts in asset position	**(25)**	**(96)**	(52)	(52)
Open contracts in liability position	**13**	**26**	8	54
Net debt	**$8,909**	**$9,147**	$9,177	$9,268
Other liabilities (GEMEX put option)	**$ 30**	**$ 30**	–	–
Guarantees	**–**	**$ 4**	–	$ 3

The carrying amounts in the above table are included in the Consolidated Balance Sheet under the indicated captions, except for debt-related derivative instruments (interest rate and currency swaps), which are included in the appropriate current or noncurrent asset or liability caption. Short-term investments consist primarily of debt securities and have been classified as held-to-maturity. Noncurrent investments mature at various dates through 2000.

Because of the short maturity of cash equivalents and short-term investments, the carrying amount approximates fair value. The fair value of noncurrent investments is based upon market quotes. The fair value of debt, debt-related derivative instruments and guarantees is estimated using market quotes, valuation models and calculations based on market rates. The fair value of the GEMEX put option is based upon a valuation model.

See Note 7 for more information regarding PepsiCo's use of derivative instruments and its management of the inherent credit risk related to those instruments.

Note 10 – Leases

PepsiCo has noncancelable commitments under both capital and long-term operating leases, primarily for restaurant units. In addition, PepsiCo is lessee under noncancelable leases covering vehicles, equipment and nonrestaurant real estate. Capital and operating lease commitments expire at various dates through 2088 and, in many cases, provide for rent escalations and renewal options. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance. Sublease income and sublease receivables are insignificant.

Future minimum commitments under noncancelable leases are set forth below:

	Capital	Operating
1996	$ 57	$ 350
1997	49	297
1998	68	269
1999	37	240
2000	38	218
Later years	299	1,170
	$548	$2,544

At year-end 1995, the present value of minimum payments under capital leases was $294 million, after deducting $1 million for estimated executory costs and $253 million representing imputed interest.

The details of rental expense are set forth below:

	1995	1994	1993
Minimum	**$439**	$433	$392
Contingent	**40**	32	28
	$479	$465	$420

Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.

Note 11 – Income Taxes

The details of the provision for income taxes on income before cumulative effect of accounting changes are set forth below:

		1995	1994	1993
Current:	Federal	**$ 706**	$642	$467
	Foreign	**154**	174	196
	State	**77**	131	89
		937	947	752
Deferred:	Federal	**(92)**	(64)	78
	Foreign	**(18)**	(2)	(13)
	State	**(1)**	(1)	18
		(111)	(67)	83
		$ 826	$880	$835

In 1993, a charge of $30 million ($0.04 per share) was recorded to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase under 1993 U.S. Federal tax legislation.

U.S. and foreign income before income taxes and cumulative effect of accounting changes are set forth below:

	1995	1994	1993
U.S.	**$1,792**	$1,762	$1,633
Foreign	**640**	902	790
	$2,432	$2,664	$2,423

PepsiCo operates centralized concentrate manufacturing facilities in Puerto Rico and Ireland under long-term tax incentives. The U.S. amount in the above table included approximately 70% in 1995 and 50% in 1994 and 1993 (consistent with the income subject to U.S. tax) of the income from sales of concentrate manufactured in Puerto Rico. The increase in 1995 reflected the effects of the 1993 Federal income tax legislation, which limited the U.S. Federal tax credit on income earned in Puerto Rico. See Management's Analysis – Significant U.S. Tax Changes Affecting Historical and Future Results on page 15 for a discussion of the reduction of the U.S. Federal tax credit associated with beverage concentrate operations in Puerto Rico.

A reconciliation of the U.S. Federal statutory tax rate to PepsiCo's effective tax rate is set forth below:

	1995	1994	1993
U.S. Federal statutory tax rate	**35.0%**	35.0%	35.0%
State income tax, net of Federal tax benefit	**2.0**	3.2	2.9
Effect of lower taxes on foreign income (including Puerto Rico and Ireland)	**(3.0)**	(5.4)	(3.3)
Adjustment to the beginning-of-the-year deferred tax assets valuation allowance	**–**	(1.3)	–
Reduction of prior years' foreign accruals	**–**	–	(2.0)
Settlement of prior years' audit issues	**(4.1)**	–	–
Effect of 1993 tax legislation on deferred income taxes	**–**	–	1.1
Effect of adopting SFAS 121	**1.4**	–	–
Nondeductible amortization of U.S. goodwill	**1.0**	0.8	0.8
Other, net	**1.7**	0.7	–
Effective tax rate	**34.0%**	33.0%	34.5%

The details of the 1995 and 1994 deferred tax liabilities (assets) are set forth below:

	1995	1994
Intangible assets other than nondeductible goodwill	**$ 1,631**	$ 1,628
Property, plant and equipment	**496**	506
Safe harbor leases	**165**	171
Zero coupon notes	**100**	111
Other	**257**	337
Gross deferred tax liabilities	**2,649**	2,753
Net operating loss carryforwards	**(418)**	(306)
Postretirement benefits	**(248)**	(248)
Casualty claims	**(119)**	(71)
Various accrued liabilities and other	**(790)**	(637)
Gross deferred tax assets	**(1,575)**	(1,262)
Deferred tax assets valuation allowance	**498**	319
Net deferred tax liability	**$ 1,572**	$ 1,810
Included in		
Prepaid expenses, taxes and other current assets	**$ (313)**	$ (167)
Other current liabilities	**–**	4
Deferred income taxes	**1,885**	1,973
	$ 1,572	$ 1,810

The valuation allowance related to deferred tax assets increased by $179 million in 1995, primarily resulting from additions related to current year operating losses in a number of state and foreign jurisdictions and the adoption of SFAS 121.

In accordance with generally accepted accounting principles, deferred tax liabilities have not been recognized for bases differences that are essentially permanent in duration related to investments in foreign subsidiaries and joint ventures. These differences, which consist primarily of unremitted earnings intended to be indefinitely reinvested, aggregated approximately $4.5 billion at year-end 1995 and $3.8 billion at year-end 1994, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the Puerto Rico tax incentive grant. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

Net operating loss carryforwards totaling $2.3 billion at year-end 1995 are available to reduce future tax of certain subsidiaries and are related to a number of state and foreign jurisdictions. Of these carryforwards, $16 million expire in 1996, $2.1 billion expire at various times between 1997 and 2010 and $173 million may be carried forward indefinitely.

Tax benefits associated with exercises of stock options of $91 million in 1995, $27 million in 1994 and $23 million in 1993 were credited to shareholders' equity. A change in the functional currency of operations in Mexico from the U.S. dollar to local currency in 1993 resulted in a $19 million decrease in the net deferred foreign tax liability that was credited to shareholders' equity.

Note 12 – Postretirement Benefits Other Than Pensions

PepsiCo provides postretirement health care benefits to eligible retired employees and their dependents, principally in the U.S. Retirees who have 10 years of service and attain age 55 while in service with PepsiCo are eligible to participate in the postretirement benefit plans. The plans are not funded and were largely noncontributory through 1993.

Effective in 1993 and 1994, PepsiCo implemented programs intended to stem rising costs and introduced retiree cost-sharing, including adopting a provision that limits its future obligation to absorb health care cost inflation. These amendments resulted in an unrecognized prior service gain of $191 million, which is being amortized on a straight-line basis over the average remaining employee service period of approximately 10 years as a reduction in postretirement benefit expense beginning in 1993.

The components of postretirement benefit expense for 1995, 1994 and 1993 are set forth below:

	1995	1994	1993
Service cost of benefits earned	**$ 13**	$ 19	$ 15
Interest cost on accumulated postretirement benefit obligation	**46**	41	41
Amortization of prior service cost (gain)	**(20)**	(20)	(20)
Amortization of net (gain) loss	**(1)**	6	–
	$ 38	$ 46	$ 36

The components of the 1995 and 1994 postretirement benefit liability recognized in the Consolidated Balance Sheet are set forth below:

	1995	1994
Actuarial present value of postretirement benefit obligation		
Retirees	**$(344)**	$(289)
Fully eligible active plan participants	**(96)**	(88)
Other active plan participants	**(171)**	(148)
Accumulated postretirement benefit obligation	**(611)**	(525)
Unrecognized prior service cost (gain)	**(132)**	(152)
Unrecognized net loss	**68**	12
	$(675)	$(665)

The discount rate assumptions used in computing the information above are set forth below:

	1995	1994	1993
Postretirement benefit expense	**9.1%**	6.8	8.2
Accumulated postretirement benefit obligation	**7.7%**	9.1	6.8

The year-to-year fluctuations in the discount rate assumptions primarily reflect changes in U.S. interest rates. The discount rate represents the expected yield on a portfolio of high-grade (AA rated or equivalent) fixed-income investments with cash flow streams sufficient to satisfy benefit obligations under the plans when due.

As a result of the plan amendments discussed above, separate assumed health care cost trend rates are used for employees who retire before and after the effective date of the amendments. The assumed health care cost trend rate for employees who retired before the effective date is 9.0% for 1996, declining gradually to 5.5% in 2005 and thereafter. For employees retiring after the effective date, the trend rate is 7.5% for 1996, declining gradually to 0% in 2001 and thereafter. A 1 point increase in the assumed health care cost trend rate would have increased the 1995 postretirement benefit expense by $2 million and would have increased the 1995 accumulated postretirement benefit obligation by $24 million.

Note 13 – Pension Plans

PepsiCo sponsors noncontributory defined benefit pension plans covering substantially all full-time U.S. employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the U.S. plans in amounts not less than minimum statutory funding requirements nor more

than the maximum amount that can be deducted for U.S. income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed income obligations. The U.S. plans' assets included 6.9 million shares of PepsiCo capital stock for 1995 and 1994, with a market value of $350 million and $227 million, respectively. Dividends on PepsiCo capital stock of $5 million were received by the U.S. plans in both 1995 and 1994.

The components of net pension expense for company-sponsored plans are set forth below:

	U.S. Plans			International Plans		
	1995	1994	1993	**1995**	1994	1993
Service cost of benefits earned	**$ 60**	$ 70	$ 57	**$ 11**	$ 15	$ 12
Interest cost on projected benefit obligation	**92**	84	76	**16**	15	15
Return on plan assets						
Actual (gain) loss	**(338)**	20	(162)	**(31)**	8	(41)
Deferred gain (loss)	**221**	(131)	71	**6**	(32)	21
	(117)	(111)	(91)	**(25)**	(24)	(20)
Amortization of net transition gain	**(19)**	(19)	(19)	**–**	–	–
Net other amortization	**5**	9	9	**–**	2	2
	$ 21	$ 33	$ 32	**$ 2**	$ 8	$ 9

Reconciliations of the funded status of the plans to the pension liability recognized in the Consolidated Balance Sheet are set forth below:

	U.S. Plans				International Plans			
	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets		Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1995	1994	**1995**	1994	**1995**	1994	**1995**	1994
Actuarial present value of benefit obligation								
Vested benefits	**$ (824)**	$ (774)	**$(270)**	$(22)	**$(144)**	$(125)	**$(34)**	$(23)
Nonvested benefits	**(110)**	(98)	**(30)**	(1)	**(2)**	(2)	**(1)**	(7)
Accumulated benefit obligation	**(934)**	(872)	**(300)**	(23)	**(146)**	(127)	**(35)**	(30)
Effect of projected compensation increases	**(155)**	(111)	**(78)**	(48)	**(23)**	(24)	**(12)**	(10)
Projected benefit obligation	**(1,089)**	(983)	**(378)**	(71)	**(169)**	(151)	**(47)**	(40)
Plan assets at fair value	**1,152**	1,134	**267**	3	**235**	213	**18**	15
Plan assets in excess of (less than) projected benefit obligation	**63**	151	**(111)**	(68)	**66**	62	**(29)**	(25)
Unrecognized prior service cost	**37**	31	**51**	30	**3**	4	**–**	–
Unrecognized net (gain) loss	**(20)**	(72)	**34**	4	**16**	14	**4**	(3)
Unrecognized net transition (gain) loss	**(51)**	(73)	**(3)**	–	**(1)**	(2)	**4**	5
Adjustment required to recognize minimum liability	**–**	–	**(26)**	–	**–**	–	**(2)**	–
Prepaid (accrued) pension liability	**$ 29**	$ 37	**$ (55)**	$(34)	**$ 84**	$ 78	**$(23)**	$(23)

The assumptions used to compute the information above were as follows:

	U.S. Plans			International Plans		
	1995	1994	1993	**1995**	1994	1993
Discount rate – pension expense	**9.0%**	7.0	8.2	**9.2%**	7.3	9.0
Expected long-term rate of return on plan assets	**10.0%**	10.0	10.0	**11.3%**	11.3	10.8
Discount rate – projected benefit obligation	**7.7%**	9.0	7.0	**8.8%**	9.3	7.4
Future compensation growth rate	**3.3%-6.6%**	3.3-7.0	3.3-7.0	**3.0%-11.8%**	3.0-8.5	3.5-8.5

The discount rates and rates of return for the international plans represent weighted averages.

The year-to-year fluctuations in the discount rate assumptions primarily reflect changes in interest rates. The discount rates represent the expected yield on a portfolio of high-grade (AA rated or equivalent) fixed-income investments with cash flow streams sufficient to satisfy benefit obligations under the plans when due. The lower assumed discount rates used to measure the 1995 projected benefit obligation compared to the assumed discount rates used to measure the 1994 projected benefit obligation changed the funded status of certain plans from overfunded to underfunded.

In 1994, PepsiCo changed the method for calculating the market-related value of plan assets used in determining the return-on-assets component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization. Under the previous accounting method, the calculation of the market-related value of assets reflected amortization of the actual capital return on assets on a straight-line basis over a five-year period. Under the new method, the calculation of the market-related value of assets reflects the long-term rate of return expected by PepsiCo and amortization of the difference between the actual return (including capital, dividends and interest) and the expected return over a five-year period. PepsiCo believes the new method is widely used in practice and

preferred because it results in calculated plan asset values that more closely approximate fair value, while still mitigating the effect of annual market-value fluctuations. Under both methods, only the cumulative net unrecognized gain or loss that exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets is subject to amortization. This change resulted in a noncash benefit in 1994 of $38 million ($23 million after-tax or $0.03 per share) representing the cumulative effect of the change related to years prior to 1994 and $35 million in lower pension expense ($22 million after-tax or $0.03 per share) related to 1994 as compared to the previous accounting method. Had this change been applied retroactively, 1993 pension expense would have been reduced by $16 million ($11 million after-tax or $0.01 per share).

Note 14 – Postemployment Benefits Other Than to Retirees

Effective the beginning of 1994, PepsiCo adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." SFAS 112 requires PepsiCo to accrue the cost of certain postemployment benefits to be paid to terminated or inactive employees other than retirees. The principal effect to PepsiCo results from accruing severance benefits to be provided to employees of certain business units who are terminated in the ordinary course of business over the expected service lives of the employees. Previously, these benefits were accrued upon the occurrence of an event. Severance benefits resulting from actions not in the ordinary course of business will continue to be accrued when those actions occur. The cumulative effect charge upon adoption of SFAS 112, which relates to years prior to 1994, was $84 million ($55 million after-tax or $0.07 per share). As compared to the previous accounting method, the ongoing impact of adopting SFAS 112 was immaterial to 1994 operating profits. PepsiCo's cash flows have been unaffected by this accounting change as PepsiCo continues to largely fund postemployment benefit costs as incurred.

Note 15 – Employee Stock Options

PepsiCo grants stock options to employees pursuant to three different incentive plans – the SharePower Stock Option Plan (SharePower), the Long-Term Incentive Plan (LTIP) and the Stock Option Incentive Plan (SOIP). All stock option grants are authorized by the Compensation Committee of PepsiCo's Board of Directors (the Committee), which is comprised of outside directors. In each case, a stock option represents the right to purchase a share of PepsiCo capital stock (Stock) in the future at a price equal to the fair market value of the Stock on the date of the grant.

Under SharePower, approved by the Board of Directors and effective in 1989, essentially all employees, other than executive officers and short-service employees, may be granted stock options annually. The number of options granted is based on each employee's annual earnings. The options generally become exercisable ratably over 5 years from the grant date and must be exercised within 10 years of the grant date. SharePower options of 8 million were granted to approximately 134,000 employees in 1995; 12 million to 128,000 employees in 1994; and 9 million to 118,000 employees in 1993.

The shareholder-approved 1994 Long-Term Incentive Plan succeeds and continues the principal features of the shareholder approved 1987 Long-Term Incentive Plan (the 1987 Plan). PepsiCo ceased making grants under the 1987 Plan at the end of 1994. Together, these plans comprise the LTIP. At year-end 1995 and 1994, there were 74 million and 75 million shares, respectively, available for future grants under the LTIP.

Most LTIP stock options are granted every other year to senior management employees. Most of these options become exercisable after 4 years and must be exercised within 10 years from their grant date. In 1995, 1994 and 1993, 1 million, 16 million and 3 million stock options, respectively, were granted under the LTIP. In addition, the LTIP allows for grants of performance share units (PSUs). The value of a PSU is fixed at the value of a share of Stock at the grant date and vests for payment 4 years from the grant date, contingent upon attainment of prescribed Corporate performance goals. PSUs are not directly granted, as certain stock options granted may be surrendered by employees for a specified number of PSUs within 60 days of the option grant date. At year-end 1995, 1994 and 1993, there were 599,100, 629,200 and 491,200 PSUs outstanding, respectively. Payment of PSUs are made in cash and/or Stock as approved by the Committee. Amounts expensed for PSUs were $5 million, $7 million and $3 million in 1995, 1994 and 1993, respectively.

In 1995, the Committee approved the 1995 Stock Option Incentive Plan for middle management employees, under which a maximum of 25 million stock options may be granted. SOIP stock options are expected to be granted annually and are exercisable after 1 year and must be exercised within 10 years after their grant date. In 1995, 4 million stock options were granted resulting in 21 million shares available for future grants at year-end. In 1994 and 1993, grants similar to those under the SOIP were made under the LTIP to a more limited number of middle management employees.

Stock option activity for 1993, 1994 and 1995 is set forth below:

(options in thousands)	SharePower	LTIP/ SOIP
Outstanding at December 26, 1992	28,796	32,990
Granted	9,121	2,834
Exercised	(1,958)	(1,412)
Surrendered for PSUs	–	(96)
Canceled	(2,524)	(966)
Outstanding at December 25, 1993	33,435	33,350
Granted	11,633	16,237
Exercised	(1,820)	(3,052)
Surrendered for PSUs	–	(1,541)
Canceled	(3,443)	(2,218)
Outstanding at December 31, 1994	39,805	42,776
Granted	**8,218**	**4,977**
Exercised	**(5,722)**	**(4,868)**
Surrendered for PSUs	**–**	**(101)**
Canceled	**(2,939)**	**(1,815)**
Outstanding at December 30, 1995	**39,362**	**40,969**
Exercisable at December 30, 1995	**16,932**	**15,804**
Option prices per share		
Exercised during 1993	$17.58 to $35.75	$4.11 to $36.31
Exercised during 1994	$17.58 to $36.75	$4.11 to $38.75
Exercised during 1995	**$17.58 to $46.00**	**$7.69 to $41.81**
Outstanding at year-end 1995	**$17.58 to $46.00**	**$7.69 to $51.19**

Note 16 – Stock Offering by an Unconsolidated Affiliate

In 1993, PepsiCo entered into an arrangement with the principal shareholders of Buenos Aires Embotelladora S.A. (BAESA), a franchised bottler which currently has operations in Brazil, Argentina, Chile, Uruguay and Costa Rica, to form a joint venture. PepsiCo contributed certain assets, primarily bottling operations in Chile and Uruguay, while the principal shareholders contributed all of their shares in BAESA, representing 73% of the voting control and 43% of the ownership interest. Through this arrangement, PepsiCo's beneficial ownership in BAESA, which is accounted for by the equity method, was 26%. Under PepsiCo's partnership agreement with the principal shareholders of BAESA, voting control of BAESA will be transferred to PepsiCo no later than December 31, 1999.

On March 24, 1994, BAESA completed a public offering of 3 million American Depository Shares (ADS) at $34.50 per ADS, which are traded on the New York Stock Exchange. In conjunction with the offering, PepsiCo and certain other shareholders exercised options for the equivalent of 2 million ADS. As a result of these transactions, PepsiCo's ownership in BAESA declined to 24%. The transactions generated cash proceeds for BAESA of $136 million. The resulting onetime, noncash gain to PepsiCo was $18 million ($17 million after-tax or $0.02 per share).

Note 17 – Acquisitions and Investments in Unconsolidated Affiliates
During 1995, PepsiCo completed acquisitions and investments in unconsolidated affiliates aggregating $475 million, principally for cash. In addition, approximately $15 million of debt was assumed in these transactions. This activity included equity investments in international franchised bottling operations, primarily Grupo Embotellador de Mexico, S.A. (GEMEX) in Mexico, and in Simba, a snack food operation in South Africa. In addition, acquisitions included worldwide restaurant operations, primarily in New Zealand and the buyout of a joint venture partner in Singapore, and worldwide bottling operations.

PepsiCo formed a joint venture with the principal shareholder of GEMEX, an unconsolidated franchised bottling affiliate in Mexico. PepsiCo acquired a 27% interest for $207 million in cash and the contribution of a small company-owned bottling operation and our interest in an existing small franchised bottling joint venture with GEMEX. In addition, PepsiCo provided the principal shareholder of GEMEX a seven-year put option which allows the shareholder to sell up to 150 million GEMEX shares (which represented about 11% of GEMEX's outstanding shares at the date of the transaction) to PepsiCo at 66 2/3¢ per share, which approximated the market value at the date of the transaction. This is equivalent to 8.3 million GEMEX American Depository Receipts (ADRs) at $12 per ADR. This option was valued at $26 million at the date of the transaction. Under PepsiCo's agreement with the principal shareholder of GEMEX, voting control of GEMEX will be transferred to PepsiCo no later than December 31, 2002.

During 1994, PepsiCo completed acquisitions and investments in unconsolidated affiliates aggregating $355 million, principally for cash. In addition, approximately $41 million of debt was assumed in these transactions, most of which was subsequently retired. This activity included equity investments in international franchised bottling operations, primarily in Thailand and China, and acquisitions of international and U.S. franchised restaurant operations and franchised and independent bottling operations, primarily in India and Mexico.

During 1993, PepsiCo completed acquisitions and investments in unconsolidated affiliates aggregating $1.4 billion, principally comprised of $1.0 billion in cash and $335 million in PepsiCo capital stock. Approximately $307 million of debt was assumed in these transactions, more than half of which was subsequently retired. This activity included acquisitions of U.S. and international franchised restaurant operations, the buyout of PepsiCo's joint venture partners in a franchised bottling operation in Spain and the related acquisition of their fruit-flavored beverage concentrate operation, the acquisition of the remaining 85% interest in a large franchised bottling operation in the Northwestern U.S., the acquisition of Chevys, a regional Mexican-style casual dining restaurant chain in the U.S., and equity investments in certain franchised bottling operations in Argentina and Mexico.

The acquisitions have been accounted for by the purchase method; accordingly, their results are included in the Consolidated Financial Statements from their respective dates of acquisition. The aggregate impact of acquisitions was not material to PepsiCo's net sales, net income or net income per share; accordingly, no related pro forma information is provided.

Note 18 – Contingencies
PepsiCo is subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on PepsiCo's annual results of operations or financial condition. At year-end 1995 and 1994, PepsiCo was contingently liable under guarantees aggregating $283 million and $187 million, respectively. The guarantees are primarily issued to support financial arrangements of certain PepsiCo joint ventures, and bottling and restaurant franchisees. PepsiCo manages the risk associated with these guarantees by performing appropriate credit reviews in addition to retaining certain rights as a joint venture partner or franchisor. See Note 9 for information related to the fair value of the guarantees.

Note 19 – Business Segments
PepsiCo operates on a worldwide basis within three industry segments: beverages, snack foods and restaurants.

Beverages
The beverage segment ("Beverages") markets and distributes its Pepsi-Cola, Diet Pepsi, Mountain Dew and other brands worldwide, and 7UP, Diet 7UP, Mirinda, Pepsi Max and other brands internationally. Beverages manufactures concentrates of its brands for sale to franchised bottlers worldwide. Beverages operates bottling plants and distribution facilities located in the U.S. and in various international markets for the production of company-owned and non-company-owned brands. Beverages also manufactures and distributes ready-to-drink Lipton tea products in the U.S. and Canada.

Beverages products are available in 193 countries outside the U.S., including emerging markets such as China, Hungary, India, Poland and Russia. Principal international markets include Argentina, Brazil, Canada, China, Japan, Mexico, Saudi Arabia, Spain, Thailand, the U.K. and Venezuela. Beverages' joint venture ("JV") investments are primarily in franchised bottling and distribution operations. Internationally, the largest JVs are GEMEX (Mexico), BAESA (South America) and Serm Suk (Thailand), as well as the aggregate of several JVs in China. The primary JV in the U.S. is General Bottlers.

Snack Foods
The snack food segment ("Snack Foods") manufactures, distributes and markets salty and sweet snacks worldwide, with Frito-Lay representing the U.S. business. Products manufactured and distributed in the U.S. (primarily salty snacks) include Lay's and Ruffles brand potato chips, Doritos and Tostitos brand tortilla chips, Fritos brand corn chips, Chee•tos brand cheese flavored snacks, Rold Gold brand pretzels, a variety of dips and salsas and other brands. Snack Foods products are available in 39 countries outside the U.S. Principal international markets include Australia, Brazil, Canada, France, Mexico, the Netherlands, Poland, Spain and the U.K. International snack foods manufactures and distributes salty snacks in all countries and sweet snacks in certain countries, primarily in France, Mexico and Poland. Snack Foods has investments in several JVs outside the U.S., the largest of which are Snack Ventures Europe (SVE), a JV with General Mills, Inc., which has operations on most of the European continent, and a recent investment in Simba, a snack food operation in South Africa.

Restaurants
The restaurant segment ("Restaurants") is engaged principally in the operation, development, franchising and licensing of the worldwide Pizza Hut, Taco Bell and KFC concepts. Restaurants also operates other smaller U.S. concepts which are managed by Taco Bell (Hot 'n Now and Chevys) and Pizza Hut (East Side Mario's). PFS, PepsiCo's restaurant distribution operation, provides food, supplies and equipment to company-operated, franchised and licensed units, principally in the U.S. Net sales and the related estimated operating profit of PFS' franchisee and licensee operations have been allocated to each restaurant chain.

Pizza Hut, Taco Bell and KFC operate throughout the U.S. Pizza Hut, KFC and, to a lesser extent Taco Bell, operate in 93 countries outside the U.S. Principal international markets include Australia, Canada, Japan, Korea, Mexico, New Zealand, Spain and the U.K. Restaurants has investments in several JVs outside the U.S., the most significant of which are located in Japan and the U.K. PepsiCo also participates in a JV which operates California Pizza Kitchen (CPK), a U.S. casual dining restaurant chain.

In 1995, PepsiCo changed the presentation of its restaurant segment to provide information by each of PepsiCo's major U.S. concepts, which include the smaller concepts managed by Pizza Hut and Taco Bell, and in total for the international operations, to more closely reflect how we currently manage the business. Prior year amounts have been restated.

Unallocated expenses, net included corporate headquarters expenses, minority interests, primarily in the Gamesa (Mexico) and Wedel (Poland) snack food businesses, foreign exchange translation and transaction gains and losses and other items not allocated to the business segments. Corporate identifiable assets consist principally of cash and cash equivalents and short-term investments, primarily held outside the U.S.

PepsiCo has invested in about 80 joint ventures in which it exercises significant influence but not control. As noted above, the JVs are primarily international and principally within PepsiCo's three industry segments. Equity in net (loss) income of these unconsolidated affiliates was ($3) million, $38 million, and $30 million in 1995, 1994 and 1993, respectively. Excluding the initial charge upon adoption of SFAS 121 (see Accounting Changes below), 1995 equity in net income was $14 million. The $24 million decline in 1995 primarily reflected increased losses in our international beverages affiliates in Mexico, reflecting the devaluation of the Mexican peso, costs related to the formation of the GEMEX JV and an unrealized loss on a put option issued in connection with the formation of the GEMEX JV (see Notes 7 and 17). This decline was partially offset by increased equity in net income from our Pepsi-Lipton Tea partnership and SVE. The increase in 1994 primarily reflected increased profit at SVE. Dividends received from these unconsolidated affiliates totaled $29 million, $33 million and $16 million in 1995, 1994 and 1993, respectively.

PepsiCo's year-end investments in unconsolidated affiliates totaled $1.6 billion in 1995 and $1.3 billion in 1994. The increase in 1995 reflected the acquisition of a 27% interest in GEMEX and the investment in Simba (see Note 17), advances to BAESA and investments in international franchised bottling operations in China, partially offset by dividends received and equity in net loss that are discussed above. Significant investments in unconsolidated affiliates at year-end 1995 included $244 million in General Bottlers, $201 million in GEMEX, $168 million in BAESA, $157 million in a KFC Japan JV, $147 million in CPK and $107 million in SVE.

Items Affecting Comparability

Net Refranchising Gains

Restaurant operating profit in 1995 included net gains of $51 million from sales of restaurants to franchisees by Pizza Hut, Taco Bell and International in excess of the cost of closing other restaurants in all of our concepts (net gains at Pizza Hut-$24 million and Taco Bell-$38 million; net losses at KFC-($7) million and International-($4) million).

Fiscal Year

Fiscal year 1994 consisted of 53 weeks and the years 1990 through 1993 and 1995 consisted of 52 weeks. The fifty-third week increased 1994 net sales by an estimated $434 million, increasing beverage, snack food and restaurant net sales by $119 million, $143 million and $172 million, respectively. The estimated impact of the fifty-third week on 1994 operating profit was $65 million, increasing beverage, snack food and restaurant operating profit by $17 million, $26 million and $23 million, respectively, and increasing unallocated expenses, net by $1 million.

Unusual Items

Unusual charges totaled $193 million in 1992 and $170 million in 1991. These unusual items were as follows:

Beverages – 1992 included $145 million in charges consisting of $115 million and $30 million to reorganize and streamline U.S. and international operations, respectively.

Snack Foods – 1992 included a $40 million charge, principally to consolidate the Walkers businesses in the U.K. 1991 included $127 million in charges consisting of $91 million and $24 million to streamline U.S. and U.K. operations, respectively, and $12 million to dispose of all or part of a small unprofitable business in Japan.

Restaurants – 1991 included $43 million in charges at KFC primarily to streamline operations.

Unallocated expenses, net – 1992 included an $8 million charge to streamline operations of the SVE joint venture.

See Management's Analysis – Beverages on pages 18 through 20 for additional information on the 1992 beverage restructurings.

Accounting Changes

PepsiCo adopted SFAS 121 as of the beginning of the fourth quarter of 1995. See Note 2. The initial, noncash charge upon adoption reduced operating profit as follows:

International Beverages	$ 62
International Snack Foods	4
Restaurants	
Pizza Hut U.S.	68
Taco Bell U.S. (a)	169
KFC U.S.	65
Total U.S. Restaurants	302
International Restaurants	135
Combined Segments	503
Equity (Loss) Income (b)	17
	$520

(a) Hot 'n Now and Chevys incurred $103 of this charge, with Hot 'n Now responsible for almost all of the charge.
(b) Primarily related to CPK.

Included in the initial charge above was $68 million related to restaurants for which closure decisions were made during the fourth quarter (Pizza Hut-$21 million, Taco Bell-$16 million, KFC-$6 million, International-$21 million and equity (loss) income-$4 million). As a result of the reduced carrying amount of certain of PepsiCo's assets used in the business, depreciation and amortization expense for the fourth quarter of 1995 was reduced by $21 million, affecting international beverages by $4 million, restaurants by $16 million and equity (loss) income by $1 million.

In 1994, PepsiCo adopted a preferred method for calculating the market-related value of plan assets used in determining annual pension expense (see Note 13) and extended the depreciable lives on certain Pizza Hut U.S. delivery assets. As compared to the previous accounting methods, these changes increased 1994 operating profit by $49 million, increasing beverage, snack food and restaurant segment operating profit by $12 million, $15 million and $20 million, respectively, and decreasing 1994 unallocated expenses, net by $2 million.

In 1992, PepsiCo adopted Statements of Financial Accounting Standards No. 106 and 109, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and "Accounting for Income Taxes," respectively. As compared to the previous accounting methods, these changes reduced 1992 operating profit by $73 million, decreasing beverage, snack food and restaurant segment operating profit by $22 million, $31 million and $16 million, respectively, and increasing 1992 unallocated expenses, net by $4 million.

Industry Segments

		Growth Rate [a] 1990 - 1995	1995	1994	1993	1992	1991
Net Sales							
Beverages:	U.S.	7%	**$ 6,977**	$ 6,541	$ 5,918	$ 5,485	$ 5,171
	International	19%	**3,571**	3,146	2,720	2,121	1,744
		10%	**10,548**	9,687	8,638	7,606	6,915
Snack Foods:	U.S.	10%	**5,495**	5,011	4,365	3,950	3,738
	International	19%	**3,050**	3,253	2,662	2,182	1,512
		12%	**8,545**	8,264	7,027	6,132	5,250
Restaurants:	U.S.	11%	**9,202**	8,694	8,026	7,115	6,258
	International	25%	**2,126**	1,827	1,330	1,117	869
		13%	**11,328**	10,521	9,356	8,232	7,127
Combined Segments							
	U.S.	9%	**21,674**	20,246	18,309	16,550	15,167
	International	20%	**8,747**	8,226	6,712	5,420	4,125
		12%	**$30,421**	$28,472	$25,021	$21,970	$19,292
By U.S. Restaurant Chain							
	Pizza Hut	8%	**$ 3,977**	$ 3,712	$ 3,595	$ 3,183	$ 2,937
	Taco Bell	15%	**3,503**	3,340	2,855	2,426	2,017
	KFC	9%	**1,722**	1,642	1,576	1,506	1,304
		11%	**$ 9,202**	$ 8,694	$ 8,026	$ 7,115	$ 6,258
Operating Profit [b]							
Beverages:	U.S.	11%	**$ 1,145**	$ 1,022	$ 937	$ 686	$ 746
	International	19%	**164**	195	172	113	117
		12%	**1,309**	1,217	1,109	799	863
Snack Foods:	U.S.	9%	**1,132**	1,025	901	776	617
	International	14%	**300**	352	289	209	140
		10%	**1,432**	1,377	1,190	985	757
Restaurants:	U.S.	10%	**451**	659	685	598	480
	International	8%	**(21)**	71	93	120	96
		9%	**430**	730	778	718	576
Combined Segments							
	U.S.	10%	**2,728**	2,706	2,523	2,060	1,843
	International	14%	**443**	618	554	442	353
		10%	**3,171**	3,324	3,077	2,502	2,196
Equity (Loss) Income			**(3)**	38	30	40	32
Unallocated Expenses, net			**(181)**	(161)	(200)	(171)	(116)
Operating Profit		11%	**$ 2,987**	$ 3,201	$ 2,907	$ 2,371	$ 2,112
By U.S. Restaurant Chain							
	Pizza Hut	9%	**$ 308**	$ 285	$ 338	$ 300	$ 286
	Taco Bell	12%	**105**	273	256	214	183
	KFC	7%	**38**	101	91	84	11
		10%	**$ 451**	$ 659	$ 685	$ 598	$ 480

Geographic Areas [c]

	Net Sales			Segment Operating Profit (Loss)			Identifiable Assets		
	1995	1994	1993	**1995**[d]	1994	1993	**1995**	1994	1993
United States	**$21,674**	$20,246	$18,309	**$2,728**	$2,706	$2,523	**$14,505**	$14,218	$13,590
Europe	**2,783**	2,177	1,819	**(65)**	17	47	**3,127**	3,062	2,666
Mexico	**1,228**	2,023	1,614	**80**	261	223	**637**	995	1,217
Canada	**1,299**	1,244	1,206	**86**	82	102	**1,344**	1,342	1,364
Other	**3,437**	2,782	2,073	**342**	258	182	**2,629**	2,196	1,675
Combined Segments	**$30,421**	$28,472	$25,021	**$3,171**	$3,324	$3,077	**22,242**	21,813	20,512
Investments in Unconsolidated Affiliates							**1,635**	1,295	1,091
Corporate							**1,555**	1,684	2,103
							$25,432	$24,792	$23,706

Amortization of Intangible Assets

	Growth Rate (a) 1990 - 1995	1995	1994	1993
Beverages	7%	**$ 166**	$ 165	$ 157
Snack Foods	2%	**41**	42	41
Restaurants	23%	**109**	105	106
	10%	**$ 316**	$ 312	$ 304

	Growth Rate (a) 1990 - 1995	1995	1994	1993
By U.S. Restaurant Chain				
Pizza Hut	14%	**$ 36**	$ 38	$ 35
Taco Bell	24%	**23**	27	23
KFC	18%	**18**	22	23
Total U.S.	16%	**77**	87	81
International	61%	**32**	18	25
	23%	**$ 109**	$ 105	$ 106

Depreciation Expense

	Growth Rate (a) 1990 - 1995	1995	1994	1993
Beverages	15%	**$ 445**	$ 385	$ 359
Snack Foods	9%	**304**	297	279
Restaurants	17%	**579**	539	457
Corporate		**7**	7	7
	14%	**$ 1,335**	$ 1,228	$ 1,102

	Growth Rate (a) 1990 - 1995	1995	1994	1993
By U.S. Restaurant Chain				
Pizza Hut	13%	**$ 189**	$ 178	$ 159
Taco Bell	21%	**179**	153	122
KFC	11%	**101**	107	101
Total U.S.	15%	**469**	438	382
International	27%	**110**	101	75
	17%	**$ 579**	$ 539	$ 457

Identifiable Assets

	Growth Rate (a) 1990 - 1995	1995	1994	1993
Beverages	9%	**$10,032**	$ 9,566	$ 9,105
Snack Foods	7%	**5,451**	5,044	4,995
Restaurants	14%	**6,759**	7,203	6,412
Investments in Unconsolidated Affiliates	9%	**1,635**	1,295	1,091
Corporate		**1,555**	1,684	2,103
	8%	**$25,432**	$24,792	$23,706

	Growth Rate (a) 1990 - 1995	1995	1994	1993
By U.S. Restaurant Chain				
Pizza Hut	8%	**$1,700**	$1,832	$1,733
Taco Bell	19%	**2,276**	2,327	2,060
KFC	7%	**1,111**	1,253	1,265
Total U.S.	12%	**5,087**	5,412	5,058
International	27%	**1,672**	1,791	1,354
	14%	**$6,759**	$7,203	$6,412

Capital Spending (e)

	Growth Rate (a) 1990 - 1995	1995	1994	1993
Beverages	11%	**$ 566**	$ 677	$ 491
Snack Foods	15%	**769**	532	491
Restaurants	10%	**750**	1,072	1,005
Corporate		**34**	7	21
	12%	**$ 2,119**	$ 2,288	$ 2,008
U.S.	12%	**$ 1,496**	$ 1,492	$ 1,388
International	13%	**623**	796	620
	12%	**$ 2,119**	$ 2,288	$ 2,008

	Growth Rate (a) 1990 - 1995	1995	1994	1993
By U.S. Restaurant Chain				
Pizza Hut	1%	**$ 168**	$ 225	$ 209
Taco Bell	17%	**305**	442	442
KFC	–	**93**	69	106
Total U.S.	8%	**566**	736	757
International	20%	**184**	336	248
	10%	**$ 750**	$1,072	$1,005

Acquisitions and Investments in Unconsolidated Affiliates (f)

	1995	1994	1993
Beverages	**$ 323**	$ 195	$ 711
Snack Foods	**82**	12	76
Restaurants	**70**	148	589
	$ 475	$ 355	$ 1,376
U.S.	**$ 73**	$ 88	$ 757
International	**402**	267	619
	$ 475	$ 355	$ 1,376

	1995	1994	1993
By U.S. Restaurant Chain			
Pizza Hut	**$ 3**	$ 52	$ 219
Taco Bell	**34**	32	187
KFC	**–**	–	30
Total U.S.	**37**	84	436
International	**33**	64	153
	$ 70	$ 148	$ 589

(a) Five-year compounded annual growth rate. Growth rates exclude the impact of the initial, noncash charge upon adoption of SFAS 121 in 1995 (see Accounting Changes on page 43) and the previously disclosed 1990 unusual items affecting U.S. beverages and snack foods, worldwide restaurants and unallocated expenses, net.

(b) The amounts for the years 1991-1995 represent reported amounts. See page 43 for Items Affecting Comparability.

(c) The results of centralized concentrate manufacturing operations in Puerto Rico and Ireland have been allocated based upon sales to the respective geographic areas.

(d) The initial charge upon adoption of SFAS 121 (see Accounting Changes on page 43) reduced combined segment operating profit by $503 (United States - $302, Europe - $119, Mexico - $21, Canada - $30, Other - $31).

(e) Included immaterial, noncash amounts related to capital leases, largely in the restaurant segment.

(f) Included noncash amounts related to treasury stock and debt issued of $9 in 1995, $39 in 1994 and $365 in 1993. Of these noncash amounts, 100%, 86% and 35%, respectively, related to the restaurant segment and the balance related to the beverage segment.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited and reported on by our independent auditors, KPMG Peat Marwick LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate.

PepsiCo maintains a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost effective internal control system will preclude all errors and irregularities, we believe our controls as of December 30, 1995 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

Wayne Calloway

Wayne Calloway
Chairman of the Board and Chief Executive Officer

Robert G. Dettmer

Robert G. Dettmer
Executive Vice President and Chief Financial Officer

Robert L. Carleton

Robert L. Carleton
Senior Vice President and Controller

February 6, 1996

Report of Independent Auditors

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 30, 1995 and December 31, 1994, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 30, 1995. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 30, 1995 and December 31, 1994, and the results of its operations and its cash flows for each of the years in the three-year period ended December 30, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, PepsiCo, Inc. in 1995 adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As discussed in Notes 13 and 14 to the consolidated financial statements, PepsiCo, Inc. in 1994 changed its method for calculating the market-related value of pension plan assets used in the determination of pension expense and adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," respectively.

KPMG Peat Marwick LLP

New York, New York
February 6, 1996

Selected Quarterly Financial Data

($ in millions except per share amounts, unaudited)
PepsiCo, Inc. and Subsidiaries

	First Quarter (12 Weeks)		Second Quarter (12 Weeks)		Third Quarter (12 Weeks)		Fourth Quarter (16/17 Weeks)[d]		Full Year (52/53 Weeks)[d]	
	1995	1994	**1995**	1994[a]	**1995**	1994	**1995[b][c]**	1994	**1995[b][c]**	1994[a]
Net sales	**$6,191**	5,729	**7,286**	6,557	**7,693**	7,064	**9,251**	9,122	**30,421**	28,472
Gross profit	**$3,169**	2,944	**3,735**	3,420	**3,942**	3,684	**4,689**	4,709	**15,535**	14,757
Operating profit	**$ 629**	550	**869**	785	**1,031**	962	**458**	904	**2,987**	3,201
Income before income taxes and cumulative effect of accounting changes	**$ 496**	438	**735**	672	**901**	830	**300**	724	**2,432**	2,664
Provision for income taxes	**$ 175**	155	**248**	225	**284**	289	**119**	211	**826**	880
Income before cumulative effect of accounting changes	**$ 321**	283	**487**	447	**617**	541	**181**	513	**1,606**	1,784
Cumulative effect of accounting changes[e]	**$ –**	(32)	**–**	–	**–**	–	**–**	–	**–**	(32)
Net income	**$ 321**	251	**487**	447	**617**	541	**181**	513	**1,606**	1,752
Income (charge) per share										
Income before cumulative effect of accounting changes	**$ 0.40**	0.35	**0.61**	0.55	**0.77**	0.68	**0.22**	0.64	**2.00**	2.22
Cumulative effect of accounting changes[e]	**$ –**	(0.04)	**–**	–	**–**	–	**–**	–	**–**	(0.04)
Net income per share	**$ 0.40**	0.31	**0.61**	0.55	**0.77**	0.68	**0.22**	0.64	**2.00**	2.18
Cash dividends declared per share	**$ 0.18**	0.16	**0.20**	0.18	**0.20**	0.18	**0.20**	0.18	**0.78**	0.70
Stock price per share[f]										
High	**$ 41**	42 1/2	**49**	37 3/4	**47 7/8**	34 5/8	**58 3/4**	37 3/8	**58 3/4**	42 1/2
Low	**$33 7/8**	35 3/4	**37 7/8**	29 7/8	**43 1/4**	29 1/4	**45 5/8**	32 1/4	**33 7/8**	29 1/4
Close	**$40 1/4**	37 5/8	**46 5/8**	31 1/8	**45 3/4**	33 3/4	**55 7/8**	36 1/4	**55 7/8**	36 1/4

(a) Included an $18 gain ($17 after-tax or $0.02 per share) arising from a public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America. See Note 16.

(b) Included the initial, noncash charge of $520 ($384 after-tax or $0.48 per share) upon adoption of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," at the beginning of the fourth quarter. As a result of the reduced carrying amount of certain long-lived assets to be held and used in the business, depreciation and amortization expense for the fourth quarter was reduced by $21 ($15 after-tax or $0.02 per share). See Note 2.

(c) Included a net gain of $51 ($27 after-tax or $0.03 per share), primarily in the fourth quarter, from sales of restaurants to franchisees in excess of the cost of closing other restaurants.

(d) Fiscal years 1995 and 1994 consisted of 52 and 53 weeks, respectively. The fifty-third week increased 1994 fourth quarter and full-year earnings by an estimated $54 ($35 after-tax or $0.04 per share).

(e) Represented the cumulative net effect related to years prior to 1994 of adopting SFAS 112, "Employers' Accounting for Postemployment Benefits," and the change to a preferred method for calculating the market-related value of pension plan assets. See Notes 14 and 13, respectively.

(f) Represented the high, low and closing prices for a share of PepsiCo capital stock on the New York Stock Exchange, as reported by The Dow Jones News/Retrieval Service, for each respective period.

Selected Financial Data

(in millions except per share and employee amounts, unaudited)
PepsiCo, Inc. and Subsidiaries

	Growth Rates				
	Compounded		Annual		
	10-Year 1985-95	5-Year 1990-95	1-Year 1994-95	**1995**(a)(b)	1994(c)(d)
Summary of Operations					
Net sales	15%	12%	7%	**$30,421**	28,472
Operating profit	14%	8%	(7)%	**$ 2,987**	3,201
Gain on stock offering by an unconsolidated affiliate(j)				**–**	18
Interest expense, net				**(555)**	(555)
Income from continuing operations before income taxes and cumulative effect of accounting changes	14%	8%	(9)%	**$ 2,432**	2,664
Income from continuing operations before cumulative effect of accounting changes	14%	8%	(10)%	**$ 1,606**	1,784
Cumulative effect of accounting changes (k)				**$ –**	(32)
Net income (l)	11%	8%	(8)%	**$ 1,606**	1,752
Cash Flow Data(m)					
Provided by operating activities	16%	12%	1%	**$ 3,742**	3,716
Capital spending	11%	12%	(7)%	**2,104**	2,253
Operating free cash flow	43%	12%	12%	**$ 1,638**	1,463
Dividends paid	14%	15%	11%	**$ 599**	540
Purchases of treasury stock				**$ 541**	549
Acquisitions and investments in unconsolidated affiliates				**$ 466**	316
Per Share Data and Other Share Information					
Income from continuing operations before cumulative effect of accounting changes	15%	8%	(10)%	**$ 2.00**	2.22
Cumulative effect of accounting changes (k)				**$ –**	(0.04)
Net income (l)	12%	8%	(8)%	**$ 2.00**	2.18
Cash dividends declared	15%	15%	11%	**$ 0.780**	0.700
Book value per share at year-end	15%	8%	7%	**$ 9.28**	8.68
Market price per share at year-end	22%	17%	54%	**$ 55 7/8**	36 1/4
Number of shares repurchased				**12.3**	15.0
Shares outstanding at year-end				**788**	790
Average shares outstanding used to calculate income (charge) per share(n)				**804**	804
Balance Sheet					
Total assets	16%	8%	1%	**$25,432**	24,792
Long-term debt	22%	8%	(4)%	**$ 8,509**	8,841
Total debt (o)	20%	4%	(3)%	**$ 9,215**	9,519
Shareholders' equity				**$ 7,313**	6,856
Statistics					
Return on average shareholders' equity (p)				**23%**	27
Market net debt ratio (q)				**18%**	26
Historical cost net debt ratio (r)				**46%**	49
Employees	12%	9%	2%	**480,000**	471,000

All share and per share amounts reflect three-for-one stock splits in 1990 and 1986. Additionally, PepsiCo made numerous acquisitions in most years presented and a few divestitures in certain years. Such transactions did not materially affect the comparability of PepsiCo's operating results for the periods presented, except for certain large acquisitions made in 1986, 1988 and 1989, and the divestiture discussed in (l) below.

(a) Included the initial, noncash charge of $520 ($384 after-tax or $0.48 per share) upon adoption of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," at the beginning of the fourth quarter. As a result of the reduced carrying amount of certain long-lived assets to be held and used in the business, depreciation and amortization expense for the fourth quarter was reduced by $21 ($15 after-tax or $0.02 per share). See Note 2.

(b) Included a net gain of $51 ($27 after-tax or $0.03 per share) from sales of restaurants to franchisees in excess of the cost of closing other restaurants.

(c) Included a benefit of changing to a preferred method for calculating the market-related value of plan assets in 1994, which reduced full-year pension expense by $35 ($22 after-tax or $0.03 per share). See Note 13.

(d) Fiscal years 1994 and 1988 each consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years. The fifty-third week increased 1994 earnings by approximately $54 ($35 after-tax or $0.04 per share) and 1988 earnings by approximately $23 ($16 after-tax or $0.02 per share).

(e) Included a $30 charge ($0.04 per share) to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. Federal tax legislation. See Note 11.

(f) Included $193 in unusual charges for restructuring ($129 after-tax or $0.16 per share). See Note 19.

(g) Included increased postretirement benefits expense of $52 ($32 after-tax or $0.04 per share) as a result of adopting SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Included the impact of adopting SFAS 109, "Accounting for Income Taxes," which reduced pretax income by $21 and the provision for income taxes by $34.

(h) Included $170 in unusual charges ($120 after-tax or $0.15 per share). See Note 19.

1993(e)	1992(f)(g)	1991(h)	1990(i)	1989	1988(d)	1987	1986	1985
25,021	21,970	19,292	17,516	15,049	12,381	11,018	9,017	7,585
2,907	2,371	2,112	2,042	1,773	1,342	1,128	829	782
–	–	–	118	–	–	–	–	–
(484)	(472)	(452)	(506)	(433)	(222)	(182)	(139)	(99)
2,423	1,899	1,660	1,654	1,340	1,120	946	690	683
1,588	1,302	1,080	1,091	901	762	605	464	427
–	(928)	–	–	–	–	–	–	–
1,588	374	1,080	1,077	901	762	595	458	544
3,134	2,712	2,430	2,110	1,886	1,895	1,335	1,212	817
1,982	1,550	1,458	1,180	944	726	771	859	770
1,152	1,162	972	930	942	1,169	564	353	47
462	396	343	294	242	199	172	160	161
463	32	195	148	–	72	19	158	458
1,011	1,210	641	631	3,297	1,416	372	1,680	160
1.96	1.61	1.35	1.37	1.13	0.97	0.77	0.59	0.51
–	(1.15)	–	–	–	–	–	–	–
1.96	0.46	1.35	1.35	1.13	0.97	0.76	0.58	0.65
0.610	0.510	0.460	0.383	0.320	0.267	0.223	0.209	0.195
7.93	6.70	7.03	6.22	4.92	4.01	3.21	2.64	2.33
41 7/8	42 1/4	33 3/4	25 3/4	21 3/8	13 1/8	11 1/4	8 3/4	7 7/8
12.4	1.0	6.4	6.3	–	6.2	1.9	20.2	66.0
799	799	789	788	791	788	781	781	789
810	807	803	799	796	790	789	787	842
23,706	20,951	18,775	17,143	15,127	11,135	9,023	8,027	5,889
7,443	7,965	7,806	5,900	6,077	2,656	2,579	2,633	1,162
9,634	8,672	8,034	7,526	6,943	4,107	3,225	2,865	1,506
6,339	5,356	5,545	4,904	3,891	3,161	2,509	2,059	1,838
27	24	21	25	26	27	27	24	23
22	19	21	24	26	24	22	28	15
50	49	51	51	54	43	41	46	30
423,000	372,000	338,000	308,000	266,000	235,000	225,000	241,000	150,000

(i) Included $83 in unusual charges ($49 after-tax or $0.06 per share) for costs of closing restaurants, U.S. trade receivables exposures, accelerated contributions to the PepsiCo Foundation and a reduction in the carrying amount of an unconsolidated international Pizza Hut affiliate.

(j) The $18 gain ($17 after-tax or $0.02 per share) in 1994 arose from a public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America. See Note 16. The $118 gain ($53 after-tax or $0.07 per share) in 1990 arose from an initial public offering of new shares by an unconsolidated KFC joint venture in Japan and a sale by PepsiCo of a portion of its shares.

(k) Represented the cumulative effect of adopting in 1994 SFAS 112, "Employers' Accounting for Postemployment Benefits," and changing to a preferred method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization (see Notes 14 and 13, respectively) and adopting in 1992 SFAS 106 ($575 ($357 after-tax or $0.44 per share)) and SFAS 109 ($571 tax charge ($0.71 per share)). Prior years were not restated for these changes in accounting.

(l) Included impacts of discontinued operations, the most significant of which were in 1985, which included income of $124 after-tax ($0.15 per share) resulting from PepsiCo disposing of its sporting goods and transportation segments.

(m) Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.

(n) See Net Income Per Share in Note 1.

(o) Total debt includes short-term borrowings and long-term debt, which for 1987 through 1990 included a nonrecourse obligation.

(p) The return on average shareholders' equity is calculated using income from continuing operations before cumulative effect of accounting changes.

(q) The market net debt ratio represents net debt as a percent of net debt plus the market value of equity, based on the year-end stock price. Net debt is total debt, which for this purpose includes the present value of long-term operating lease commitments, reduced by the pro forma remittance of investment portfolios held outside the U.S. For 1987 through 1990, total debt was also reduced by the nonrecourse obligation in the calculation of net debt.

(r) The historical cost net debt ratio represents net debt (see (q) above) as a percent of capital employed (net debt, other liabilities, deferred income taxes and shareholders' equity).

Capital Stock Information

Stock Trading Symbol

PEP

Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo capital stock, which is also listed on the Amsterdam, Chicago, Swiss and Tokyo Stock Exchanges.

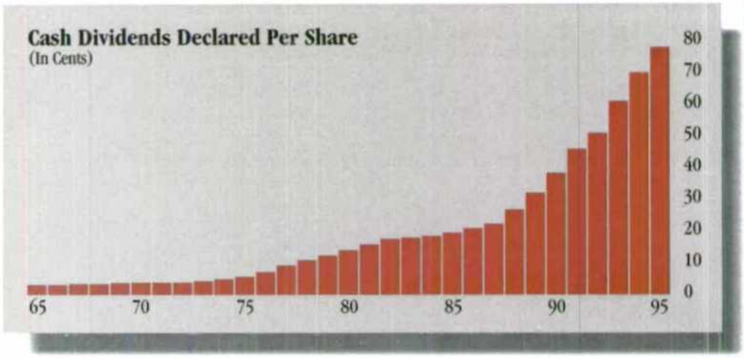
Shareholders

At year-end 1995, there were approximately 167,000 shareholders of record.

Dividend Policy

Quarterly cash dividends are usually declared in November, February, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for 1996 are expected to be March 8, June 7, September 6 and December 6.

Quarterly cash dividends have been paid since PepsiCo was formed in 1965, and dividends paid per share have increased for 23 consecutive years.



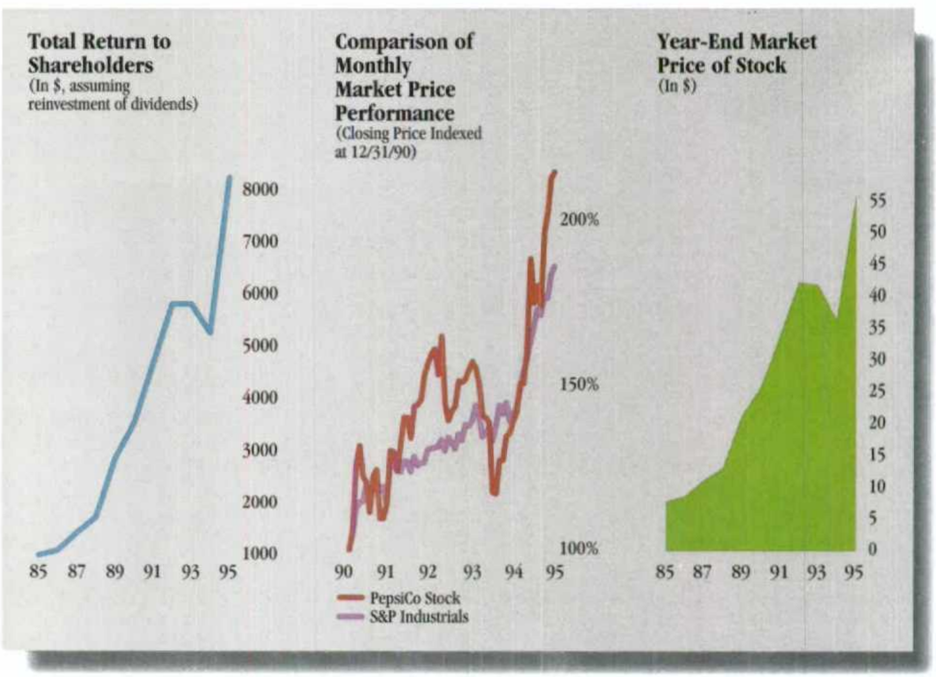
Stock Performance

PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made at year-end 1985 was worth approximately $8,300 on December 30, 1995, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 24%.

The return on PepsiCo capital stock compares favorably with the performance of the Standard & Poor's Industrials over the past five years.

The closing price for a share of PepsiCo capital stock on the New York Stock Exchange was the price as reported by the Dow Jones News/Retrieval Service for the end of each fiscal year 1985-1995.

Past performance is not necessarily indicative of future returns on investments in PepsiCo capital stock.



PepsiCo Directors

John F. Akers,

61, former Chairman of the Board and Chief Executive Officer, International Business Machines Corporation. Elected 1991. Mr. Akers joined IBM in 1960 and became its Chairman and Chief Executive Officer in 1986. Director: The New York Times Company; Springs Industries, Inc.; Zurich Insurance Company-U.S.; Hallmark Cards, Inc.; Lehman Brothers Holdings, Inc.

Robert E. Allen,

61, Chairman of the Board and Chief Executive Officer, AT&T Corp. Elected 1990. Mr. Allen began his career at AT&T in 1957. He was elected President and Chief Operating Officer in 1986 and assumed his present responsibilities in 1988. Director: Bristol-Myers Squibb Company; Chrysler Corporation.

Wayne Calloway,

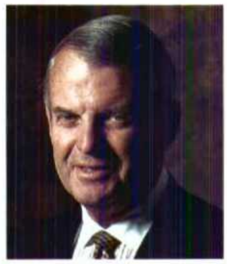
60, Chairman of the Board and Chief Executive Officer, PepsiCo, Inc. Elected 1983. Mr. Calloway will retire as Chief Executive Officer on April 1, 1996. Mr. Calloway joined PepsiCo in 1967. He became President and Chief Operating Officer of Frito-Lay, Inc. in 1976 and Chief Executive Officer in 1978. Mr. Calloway became Executive Vice President and Chief Financial Officer of PepsiCo in 1983, President and Chief Operating Officer in 1985 and assumed his current position in 1986. Director: Citicorp; General Electric Company; Exxon Corporation.

Roger A. Enrico,

51, Vice Chairman of the Board of PepsiCo and Chairman and Chief Executive Officer, PepsiCo Worldwide Restaurants. Elected 1987. Effective April 1, 1996, Mr. Enrico will become PepsiCo's Chief Executive Officer. Mr. Enrico joined PepsiCo in 1971. He served as President and Chief Executive Officer of PepsiCo Worldwide Beverages and Chairman and Chief Executive Officer of PepsiCo Worldwide Foods. He was named Vice Chairman of PepsiCo in 1993 and Chairman and Chief Executive Officer, PepsiCo Worldwide Restaurants at the end of 1994. Director: Dayton Hudson Corporation; The A. H. Belo Corporation; The Prudential Insurance Company of America.

Ray L. Hunt,

52, Chairman and Chief Executive Officer of Hunt Oil Company and Chairman, Chief Executive Officer and President, Hunt Consolidated, Inc. Elected effective April 1, 1996. Mr. Hunt began his association with Hunt Oil Company in 1958 and has held his current position since 1976. Director: Dresser Industries, Inc.; Security Capital Group; Ergoscience, Inc.; Texas Commerce Bank.

John J. Murphy,

64, Chairman of Dresser Industries. Elected 1984. Chairman: Compensation Committee. Mr. Murphy joined Dresser in 1952 and was elected Chairman and Chief Executive Officer in 1983. He served as Chief Executive Officer until 1995. Director: NationsBank Corporation; Kerr-McGee Corporation.

Steven S Reinemund,

47, President and Chief Executive Officer of Frito-Lay, Inc. Elected effective April 1, 1996. Mr. Reinemund began his career with PepsiCo as a senior operating officer of Pizza Hut, Inc. in 1984. He became President and Chief Executive Officer of Pizza Hut in 1986, President and Chief Executive Officer of Pizza Hut Worldwide in 1991 and assumed his current position in 1992. Director: Aviall, Inc.; Provident Life & Accident Insurance Co.

Sharon Percy Rockefeller,

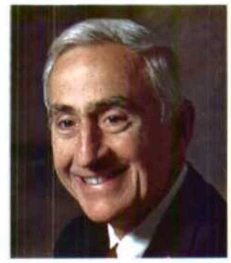
51, President and Chief Executive Officer of WETA public stations in Washington, D.C. Elected 1986. Mrs. Rockefeller was a member of the Board of Directors of WETA from 1985 to 1989 and a member of the Board of Directors of the Corporation for Public Broadcasting until 1992. Mrs. Rockefeller has also been a Member of the Democratic National Committee. Director: Public Broadcasting Service, Washington, D.C.

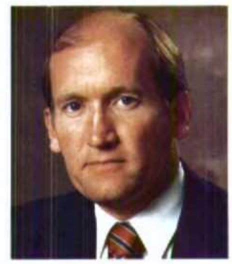
Christopher A. Sinclair,

45, President and Chief Executive Officer of PepsiCo Foods & Beverages International. Elected effective April 1, 1996. During his 12-year career at PepsiCo, Mr. Sinclair served as Vice President of Marketing for Frito-Lay, Vice President of Marketing and Sales for Pepsi-Cola Bottling Group, President of Pepsi-Cola Company's Central Division and President and Chief Executive of Pepsi-Cola International. He assumed his current position in 1993. Director: Mattel, Inc.; Perdue Farms, Inc.; the Woolworth Corporation.

Franklin A. Thomas,

61, President of the Ford Foundation since 1979. Elected 1994. From 1967 to 1977, Mr. Thomas was President and Chief Executive Officer of the Bedford-Stuyvesant Restoration Corporation. From 1977 to 1979, Mr. Thomas had a private law practice in New York City. Director: ALCOA; AT&T; Citicorp; Cummins Engine Company, Inc.

P. Roy Vagelos,

66, former Chairman of the Board and Chief Executive Officer of Merck & Co., Inc. Elected 1992. Dr. Vagelos joined Merck in 1975 and became President and Chief Executive Officer in 1985. He became a director in 1984 and Chairman in 1986, retiring in 1994. Director: The Prudential Insurance Company of America; McDonnell Douglas Corporation; The Estee Lauder Companies; Chairman of the Board, Regeneron Pharmaceuticals Inc.

Craig E. Weatherup,

50, President and Chief Executive Officer of Pepsi-Cola North America. Elected effective April 1, 1996. Mr. Weatherup joined Pepsi-Cola in 1974 as Marketing Director for the Far East. He was named Senior Vice President, Sales and Marketing of the Pepsi-Cola Group in 1982, President of the division in 1986, President of Pepsi-Cola Company in 1988 and assumed his present position in 1991.

Arnold R. Weber,

66, Chancellor, Northwestern University. Elected 1978. Chairman: Audit Committee. Dr. Weber has held various government positions, including Executive Director of the Cost of Living Council and Associate Director of the Office of Management and Budget. Director: Aon Corp.; Burlington Northern, Inc.; Inland Steel Company; The Tribune Co.; Deere Co.

Principal Divisions and Corporate Officers

(Listings include age and years of PepsiCo experience.)

Executive Offices

PepsiCo, Inc.
Purchase, New York 10577
(914) 253-2000

Co-Founder of PepsiCo, Inc.

Donald M. Kendall
48 years of PepsiCo experience

Corporate Officers

Wayne Calloway
Chairman of the Board and
Chief Executive Officer
60, 29 years

Robert G. Dettmer
Executive Vice President and
Chief Financial Officer
64, 23 years

Randall C. Barnes
Senior Vice President and Treasurer
44, 8 years

William R. Bensyl
Senior Vice President, Personnel
50, 20 years

Robert L. Carleton
Senior Vice President and Controller
55, 21 years

Edward V. Lahey, Jr.
Senior Vice President, General
Counsel and Secretary
57, 30 years

Joseph F. McCann
Senior Vice President, Public Affairs
55, 23 years

Indra K. Nooyi
Senior Vice President, Strategic Planning
40, 2 years

Principal Divisions and Officers

Pepsi-Cola North America

1 Pepsi Way
Somers, New York 10589
(914) 767-6000

Craig E. Weatherup
President and Chief Executive Officer
50, 21 years

Brenda C. Barnes
Chief Operating Officer
42, 20 years

Frito-Lay, Inc.

7701 Legacy Drive
Plano, Texas 75024
(214) 334-7000

Steven S Reinemund
President and Chief Executive Officer
47, 11 years

Al P. Carey
Chief Operating Officer
44, 14 years

PepsiCo Foods & Beverages International

700 Anderson Hill Road
Purchase, New York 10577
(914) 253-2000

Christopher A. Sinclair
President and Chief Executive Officer
45, 13 years

Pepsi-Cola International

1 Pepsi Way
Somers, New York 10589
(914) 767-6000

James A. Lawrence
Chief Operating Officer, Asia/Middle East/Africa
43, 3 years

Luis Suarez
Chief Operating Officer, Europe/Latin America
49, 16 years

PepsiCo Foods International

700 Anderson Hill Road
Purchase, New York 10577
(914) 253-2000

Rogelio Rebolledo
President, Latin America
51, 19 years

On April 1, 1996 some important changes take place at PepsiCo, Inc.:
Wayne Calloway retires as Chief Executive Officer of PepsiCo, Inc.
Roger A. Enrico becomes Chief Executive Officer of PepsiCo, Inc.
Craig E. Weatherup becomes President of PepsiCo, Inc.
Christopher A. Sinclair becomes Chairman and Chief Executive Officer of Pepsi-Cola Company, a newly formed unit that combines Pepsi-Cola North America and Pepsi-Cola International.
Steven S Reinemund becomes Chairman and Chief Executive Officer of Frito-Lay Company, a newly formed unit that combines Frito-Lay, Inc. and PepsiCo Foods International.

Peter Thompson
President, Europe/Middle East/Africa
49, 5 years

Ramesh V. Vangal
President, Asia
41, 10 years

PepsiCo Worldwide Restaurants

14841 Dallas Parkway
Dallas, Texas 75240
(214) 338-7700

Roger A. Enrico
Chairman and Chief Executive Officer and
PepsiCo Vice Chairman of the Board
51, 24 years

Pizza Hut, Inc.

14841 Dallas Parkway
Dallas, Texas 75240
(214) 338-7700

Allan S. Huston
President and Chief Executive Officer
52, 24 years

Taco Bell Corp.

17901 Von Karman
Irvine, California 92714
(714) 863-4500

John E. Martin
Chairman and Chief Executive Officer
50, 12 years

Kenneth T. Stevens
President
44, 5 years

Kentucky Fried Chicken Corporation

1441 Gardiner Lane
Louisville, Kentucky 40213
(502) 456-8300

David C. Novak
President and Chief Executive Officer
43, 9 years

PepsiCo Restaurants International

14841 Dallas Parkway
Dallas, Texas 75240
(214) 338-7700

James H. O'Neal
President and Chief Executive Officer
58, 29 years

PepsiCo Food Systems

14841 Dallas Parkway
Dallas, Texas 75240
(214) 338-7700

Robert C. Hunter
President and Chief Executive Officer
47, 21 years

Shareholder Information

Annual Meeting

The Annual Meeting of Shareholders will be held at PepsiCo World Headquarters on Anderson Hill Road, Purchase, New York, 9 a.m. to 11 a.m. (EDT), Wednesday, May 1, 1996. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

Registered Shareholders (shares held by you in your name) should address communications concerning statements, dividend payments, address changes, lost certificates and other administrative matters to:

PepsiCo, Inc. c/o Bank of Boston P.O. Box 9155 Boston, MA 02205-9155 Telephone: (800) 226-0083	or	Manager, Shareholder Relations PepsiCo, Inc. Purchase, NY 10577 Telephone: (914) 253-3055

In all correspondence or telephone inquiries, please mention PepsiCo, your name **as printed on your stock certificate**, your social security number and your address and telephone number.

Beneficial Shareholders (shares held by your broker in the name of the brokerage house) should direct communications on all administrative matters to your stockbroker.

SharePower Participants (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30466
New Brunswick, NJ 08989
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)
(908) 469-8877 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:

Capital Stock Purchase Plan	(800) 227-4015
SaveUp (formerly 401(k) or Long-term Savings)	(800) 227-4015
P.O. Box 9108	(617) 472-3127
Boston, MA 02209	(outside U.S.)
ESOP	(914) 253-3861

Please have a copy of your most recent statement available when calling with inquiries.

Shareholder Services

Dividend Reinvestment Plan

An enrollment card and a brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

PepsiCo, Inc.
c/o Bank of Boston
P.O. Box 9156
Boston, MA 02205-9156 Telephone: (800) 226-0083

Direct Deposit of Dividends

Information on the Direct Deposit service is available from our transfer agent at this address:

PepsiCo, Inc.
c/o Bank of Boston
P.O. Box 9155
Boston, MA 02205-9155 Telephone: (800) 226-0083

Low Cost Investment Plan

Effective April 1, 1996, investors may purchase their initial five shares of PepsiCo capital stock through NAIC's Low Cost Investment Plan. For details contact:

National Association of Investors Corporation (NAIC)
711 West Thirteen Mile Road
Madison Heights, MI 48071 Telephone: (810) 583-NAIC (6242)

Financial and Other Information

PepsiCo's 1996 quarterly earnings releases are expected to be issued on April 30, July 23, and October 15, 1996 and February 4, 1997.

Beginning April 1996, earnings, financial results, corporate news and other company information will be available on PepsiCo's web site:

http://www.pepsico.com

Copies of PepsiCo's SEC Form 10-K and 10-Q reports, quarterly earnings releases, midyear update and Environmental Report are available free of charge. Contact: PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

Security analysts, portfolio managers, representatives of financial institutions and other individuals with questions regarding PepsiCo's performance are invited to contact:

Margaret D. Moore
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, NY 10577 Telephone: (914) 253-3035

Independent Auditors

KPMG Peat Marwick LLP
345 Park Avenue
New York, NY, 10159 Telephone: (212) 758-9700

PepsiCo's Annual Report contains many of the valuable trademarks owned and used by PepsiCo and its subsidiaries and affiliates in the United States and internationally to distinguish products and services of outstanding quality.

Design: Eisenman Associates
Printing: The Bradley Printing Company
Photography: Ben Rosenthal
Chairman's and nine of the Directors' photographs: Alen MacWeeney
Modelmaker: Tom Klem
Printed on recycled paper.

Continuing growth means higher shareholder value – and a stock price that jumped 54% in 1995!